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YOUR TELNO 1209 TO WASHINGTON: PARIS SUMMIT : JAPANESE VIEWS

#### SUMMARY

1. ENVIRONMENT, TRADE, CHINA AND EAST-WEST RELATIONS ARE IMPORTANT ITEMS FOR JAPAN. JAPAN SHARES UK VIEWS ON THE SUBSTANCE OF ENVIRONMENT ISSUES, BUT WOULD NOT NECESSARILY OPPOSE THE IDEA OF SOME NEW ENVIRONMENTAL ORGANISATION IF FLOATED. HER OWN PROPOSALS FOR COOPERATION ON THE ENVIRONMENT ARE LIKELY TO BE MORE PRAGMATIC IN NATURE. JAPAN WILL PROBABLY ANNOUNCE A FURTHER DOLLARS 600 MILLION GRANT AID PROGRAMME FOR MAINLY AFRICAN LLDC'S, AND SUPPORT THROUGH EXIMBANK LOANS FOR IFI PROGRAMMES LINKED TO DEBT REDUCTION, BUT SEES NO NEED FOR MAJOR NEW AID INITIATIVES.

#### DETAIL

2. WE HAVE SPOKEN TO FUJITA (COUNSELLOR, PRIME MINISTER'S OFFICE) AND OGURA (DEPUTY SHERPA) AND OTHER MFA AND MOF OFFICIALS ABOUT THE PROSPECT FOR DISCUSSIONS IN PARIS. FOLLOWING IS A SUMMARY OF VIEWS.

#### ENVIRONMENT

3. THE ENVIRONMENT IS A TOP ISSUE FOR THE JAPANESE, AND THEY EXPECT MITTERRAND TO GIVE IT PROMINENCE. IN SUBSTANCE JAPAN SHARES OUR VIEWS ON THE OBJECTIVE OF MAKING ECONOMIC GROWTH ENVIRONMENTALLY SUSTAINABLE, ON THE NEED FOR THOROUGH SCIENTIFIC EVIDENCE, AND ON USING MARKET MECHANISMS, RATHER THAN REGULATIONS OR SANCTIONS, TO GIVE EFFECT TO POLICIES. JAPAN WOULD INSTINCTIVELY PREFER TO FOLLOW THE ROUTE OF STRENGTHENING EXISTING ORGANISATIONS. NONETHELESS, ON THE GROUNDS THAT THESE ARE SOMEWHAT DIVERSE AND THAT A 'NEW FACADE' MIGHT HELP TO ATTRACT THE PARTICIPATION OF MORE DEVELOPING COUNTRIES, THE JAPANESE GOVERNMENT, (PRESENT AT

THE HAGUE MEETING BUT RATHER IN THE ROLE OF MODERATING THE OUTCOME) WOULD NOT OPPOSE A MAJORITY IN FAVOUR OF SOME NEW INTERNATIONAL BODY IF THIS WAS PRESSED IN PARIS. JAPAN'S OWN PROPOSALS ARE LIKELY TO BE OF A MORE PRAGMATIC NATURE. THE IDEA OF SETTING A TARGET FOR ENVIRONMENTAL PROJECTS WITHIN NATIONAL AID PROGRAMMES IS UNDER CONSIDERATION. JAPAN MAY SUGGEST A REFORESTATION INITIATIVE IN THE FORM OF A SPECIAL FUND WITHIN THE ITTO, OR STRENGTHENING OF THE FAO'S TIMBER RELATED ACTIVITIES. INTERNATIONAL COOPERATION IN MONITORING OF CO2 LEVELS, AND COLLABORATIVE RESEARCH ON SUBSTITUTES FOR CFC'S OR TECHNIQUES TO ABSORB CO2 IN THE ATMOSPHERE ARE ALSO IDEAS WHICH JAPAN FEELS COULD USEFULLY BE INITIATED BY THE G7 AS A GROUP.

#### MACROECONOMIC DISCUSSION

4. JAPAN'S OBJECTIVES ARE THE REAFFIRMATION OF THE IMPORTANCE OF THE FIGHT AGAINST INFLATION, (WHICH IS A SERIOUS JAPANESE CONCERN, DESPITE ITS COMPARATIVELY LOW LEVEL HERE) AND SOME SIGNAL TO THE MARKETS OF CONTINUED G7 COORDINATION OF MONETARY POLICY - FRAMED PROBABLY AS A REFERENCE TO THE NEED FOR EXCHANGE RATE STABILITY, RATHER THAN TO ANY PARTICULAR EXCHANGE-RATE TARGET. THEY HALF EXPECT THE FRENCH TO RESURFACE SOME OF THEIR IDEAS FOR REFORM OF THE INTERNATIONAL MONETARY SYSTEM, BUT ARE NOT SYMPATHETIC. THEY DO NOT EXPECT DISCUSSION OF STRUCTURAL IMBALANCES TO BE PARTICULARLY DIFFICULT FOR JAPAN THIS TIME, ON THE GROUNDS THAT THE CURRENT ACCOUNT SURPLUS HAS CONTINUED TO FALL AS A PERCENTAGE OF GNP, AND NOW STANDS AT 2.7%, COMPARED WITH 4.1% FOR THE FRG. THEY SAY THEIR INTENTION WILL BE TO DEMONSTRATE THAT THE COMMITMENT TO EXPANDING DOMESTIC DEMAND CONTINUES WHATEVER THE POLITICAL SITUATION. THEY WILL REFER TO MITI'S VISION ON DISTRIBUTION (MY TELNOS 552 AND 608) AS EVIDENCE OF DEREGULATION. THERE WERE HINTS HOWEVER OF RELUCTANCE TO TALK ABOUT STRUCTURAL POLICIES IN DETAIL AND OF HOPE THAT THE FRENCH WOULD ALSO DISCOURAGE THIS DISCUSSION.

#### TRADE POLICY

5. JAPAN BELIEVES IT ESSENTIAL THAT THE SUMMIT ISSUE A CLEAR DENUNCIATION OF UNILATERALISM BUT WILL BE CONTENT WITH A REITERATION OF OECD COMMUNIQUE LANGUAGE. SHE WILL SUPPORT REFERENCES TO ACHIEVING RESULTS IN THE URUGUAY ROUND BY 1990 - WHICH IN THE JAPANESE MIND ARE AN IMPORTANT ELEMENT

IN PREVENTING PROTECTIONISM IN THE US CONGRESS. JAPAN WILL ALSO TRY TO PRESENT AN ASIAN VIEW OF TRADE ISSUES. THEY ARE, FOR INSTANCE, CONSULTING WITH THE SOUTH KOREANS ON THIS.

#### DEBT STRATEGY AND ODA

6. JAPAN SEES TWO MAJOR IMPROVEMENTS OVER THE PAST YEAR IN THE WILLINGNESS OF LDC'S TO ACCEPT CONDITIONALITY IN RETURN FOR RESTRUCTURING LOANS FROM THE IFI'S, AND ALSO IN THE FACT THAT AS A RESULT OF THE BRADY PLAN AND THE SUBSEQUENT DISCUSSIONS WITH THE IMF AND THE IBRD THE DIFFERENT ROLES TO BE PLAYED BY DONOR AND RECIPIENT GOVERNMENTS, BY THE IFI'S, AND BY THE PRIVATE BANKS IN DEBT SCHEMES ARE IN THEIR VIEW BETTER DEFINED. JAPAN'S COMMITMENT TO THE BRADY PLAN REMAINS UNDIMINISHED, AND WILL BE REITERATED BY THE PLEDGING (ALREADY UNOFFICIALLY ANNOUNCED AT THE INTERIM COMMITTEE MEETINGS) OF DOLLARS 4.5 BILLION IN EXIM BANK LOANS TO BE MADE AVAILABLE IN CONJUNCTION WITH IMF/IBRD LENDING. IF, AS NOW SEEMS LIKELY, THE NEGOTIATIONS BETWEEN THE BANKS AND THE MEXICANS HAS STILL NOT PRODUCED AGREEMENT BY THE TIME OF THE SUMMIT, JAPAN MAY WELL SUGGEST THAT PARTICIPANTS SHOULD GIVE A POLITICAL MESSAGE OF ENCOURAGEMENT TO THE NEGOTIATIONS.

7. ACCORDINGLY JAPAN THINKS THAT THE SUMMIT SHOULD NOT ENGAGE IN ANY NEW DEBT INITIATIVES. THEY WOULD OPPOSE ANY RENEWED SUGGESTION FROM THE FRENCH OF A NEW SDR ISSUE TO GUARANTEE DEBT REPAYMENT - ON THE GROUNDS THAT IT RAISED QUESTIONS ABOUT THE ROLE OF SDR'S WHICH COULD NOT BE ADDRESSED AT THE SUMMIT. THEY EXPECT MITTERRAND TO WISH TO FOCUS MORE ON LLDC ISSUES THOUGH THEY DID NOT SEEM AWARE OF ANY SPECIFIC INITIATIVES AND WOULD BE SCEPTICAL IF ONE WERE ANNOUNCED, ON THE GROUNDS THAT THE FRAMEWORK HAD ALREADY BEEN SET OUT BY THE AGREEMENT AT THE TORONTO SUMMIT. FOR THEIR OWN PART THEY WILL ANNOUNCE A SECOND MULTI-YEAR GRANT AID PROGRAMME OF DOLLARS 600 MILLION FOR AFRICAN AND A FEW ASIAN LLDC'S. THEY HAVE TOLD US THEY WILL NOT HAVE A FINANCIAL PACKAGE TO ANNOUNCE FOR FLOOD PREVENTION PROJECTS IN BANGLADESH (A THEME THE FRENCH HAVE BEEN PUSHING HARD).

#### EAST/WEST ECONOMIC RELATIONS

8. THE JAPANESE ANTICIPATE DISCUSSION ON ASSISTANCE TO POLAND AND HUNGARY, ON THE ASSESSMENT OF PERESTROIKA AND RELATIONS WITH THE SOVIET UNION, AND ON THE IMPLICATIONS OF

EAST WEST RELATIONS FOR G7 POLICIES. ON THE LATTER THEY INDICATED SOME UNEASE ABOUT FRENCH AND GERMAN THINKING - PARTICULARLY ANY SUGGESTION THAT GOVERNMENTS SHOULD POSITIVELY ENCOURAGE JOINT VENTURES WITH THE SOVIET UNION. THEY WOULD NOT OPPOSE THE PRINCIPLE OF EXPANDING ECONOMIC EXCHANGES ON A MUTUALLY BENEFICIAL BASIS, BUT THEIR POLITICAL ASSESSMENT WAS MUCH MORE CAUTIOUS, AND THEIR POLVCY VIEWS MUCH MORE IN LINE WITH THOSE OF THE UK. JAPAN WILL THEREFORE BE SEEKING A BALANCED TEXT WHICH WELCOMES THE PROGRESS MADE BUT ALSO BRINGS OUT HOW MUCH MORE REMAINS TO BE DONE. IN PARTICULAR THEY WILL WANT DEVELOPMENTS IN THE ASIA/PACIFIC REGION TO BE TAKEN INTO ACCOUNT IN ASSESSING SOVIET POLICY (THOUGH THEY MAY NOT INSIST ON A SPECIFIC REFERENCE TO THE NORTHERN TERRITORIES). THIS APPLIES TO ARMS CONTROL ALSO. THE JAPANESE ARE UPSET THAT BUSH LAUNCHED HIS NATO SUMMIT INITIATIVE, INCLUDING REDUCTIONS IN AIRCRAFT, WITHOUT CONSULTING THEM, AND WILL WANT THE SUMMIT TO TAKE INTO ACCOUNT THE GLOBAL IMPLICATIONS OF CURRENT DISARMAMENT MOVES.

9. ON CHINA THE JAPANESE VIEW IS THAT ALTHOUGH POSITIONS OF SUBSTANCE ARE NOT VERY DIFFERENT AMONG THE G7 THE PRESENTATION OF THEM VARIES. THEY HOPE THAT ACCEPTABLE LANGUAGE SHOULD NOT BE TOO DIFFICULT TO FIND. JAPAN HAS ALREADY DESCRIBED CHINESE BEHAVIOUR AS INTOLERABLE FROM A HUMANITARIAN POINT OF VIEW AND HAS GONE AS FAR AS OTHER COUNTRIES IN PRACTICAL STEPS SUCH AS POSTPONING NEW AID DECISIONS, THOUGH THEY HAVE TRIED TO PRESENT THESE NOT AS PUNITIVE BUT JUST INEVITABLE IN THE CIRCUMSTANCES. JAPAN WOULD NOT WISH TO SUBSCRIBE TO LANGUAGE IN THE SUMMIT DECLARATION TO THE EFFECT THAT THE LEADERS HAD AGREED CERTAIN MEASURES, ALTHOUGH IT MIGHT BE POSSIBLE TO NOTE THE MEASURES INDIVIDUAL COUNTRIES HAD ALREADY TAKEN. AN IMPORTANT STRAND IN JAPANESE (AND, THEY BELIEVE, FOLLOWING MITSUZUKA'S TALKS IN WASHINGTON LAST WEEK, IN AMERICAN) THINKING, IS NOT TO BURNS ONE'S BRIDGES WITH THE CHINESE OR ISOLATE THE CHINESE LEADERSHIP SINCE A MORE MILITANT ATTITUDE ON THEIR PART COULD AFFECT STABILITY IN THE ASIAN REGION AS A WHOLE. IN THIS REGARD OGURA EXPRESSED SOME CONCERN THAT HMG WAS PREPARED TO GO ALONG WITH HARSH CONDEMNATION OF CHINA AND APPEARED TO BE BURNING ITS BOATS WITH THE CHINESE GOVERNMENT. WE ASSURED THE MFA THAT THIS WAS NOT THE CASE. OUR RESPONSIBILITY FOR HONG KONG WAS A PRIME CONSIDERATION, BUT WE COULD NOT ALLOW THE CHINESE GOVERNMENT TO THINK THAT THEIR METHODS OF DEALING WITH THE STUDENTS WERE INTERNATIONALLY ACCEPTABLE, OR IGNORE THE FACT THAT THE CONFIDENCE OF HONG KONG PEOPLE HAD BEEN SHATTERED. WE HOPE OUR PARTNERS WOULD DO WHAT THEY COULD TO SHOW SUPPORT FOR HONG KONG.