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THE SECRETARY OF STATE
WASHINGTON

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April 21, 1987

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MEMORANDUM TO THE PRESIDENT

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PM

FROM: George P. Shultz *GPS*

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SUBJECT: Visit of Japanese Prime Minister Nakasone,
April 29 - May 2

I. WHERE DOES OUR RELATIONSHIP STAND?

- o Tension on trade blurs excellent overall relations. Japan has given staunch support on key global issues, has assumed greater responsibilities on defense.
- o Despite Japan's market opening, yen appreciation, US exports to Japan have not increased substantially.
- o Frustration in Congress, business community is compounded by Japan's high tech. competitive challenge.
- o Semiconductor sanctions, opposition in USG to Fujitsu's purchase of Fairchild aroused resentment in Japan. Nakasone must seek lifting of trade sanctions.
- o Yen's rise is forcing painful change in Japan. Yen value of exports down 16 percent in 1986. Unemployment rising. Manufacturing profits down.
- o Nakasone is at most difficult point in administration. Faces opposition to tax reform, criticism of handling of relations with US; polls down.
- o In move away from his policy of fiscal austerity, Nakasone has instructed GOJ to prepare fiscal stimulus program, measures to resolve trade issues.
- o Nakasone remains strongest supporter of US political, security goals and catalyst for economic change.

II. WHAT DO WE WANT?

- o To honor a good friend and allied leader.
- o To restore balance to the relationship, halt deteriorating perceptions in both countries. To show effective, cooperative problem solving and the vital US and Japan relationship that deeply benefits both countries.
- o To prepare for successful Summit in Venice.

- o To define Japan's commitment to reduce trade imbalance, solve economic problems through: Increased domestic led growth; structural economic change; resolution of trade issues and removal of remaining trade impediments; Japan's agreement to discuss removal of its agricultural trade barriers, including those on rice, in Uruguay Round, and to eliminate remaining quotas.
- o To show unity and reaffirm cooperation on political, strategic, defense, aid questions; highlight Japan's acknowledgement of its international responsibilities.
 - Exchange views on Soviet relations, arms control, other issues. Show progress on SDI. Underscore importance of FSX decision and continued smooth operation of security relationship.

III. WHAT DO THEY WANT?

- o Your reaffirmation of closeness of relations and of desire to cooperate with Japan on global issues.
- o Assurance of continued access to markets and direct investment opportunities in US. Affirmation that US will fight protectionism, reduce the budget deficit, and improve competitiveness.
- o To relieve trade friction by resolving problems. US recognition of Japan's market opening, pain of high yen.
- o Cooperation on Venice Summit. Assurance US will take account of Japan's interests in arms control talks.
- o For Nakasone, show he is effective in foreign affairs, a good friend of President.

IV. WHAT CAN BE ACCOMPLISHED FROM THIS VISIT?

- o Show US-Japan relationship is vital, cooperative, and beneficial to each side. Arrest deterioration of public attitudes in US, Japan.
- o Make progress on economic problems, set agenda for future action, get Japanese commitments on growth, surplus reduction, more aid to LDCs, trade issues.
- o Promote alliance solidarity, GOJ acceptance of international responsibility.
- o By positive result to visit, show GOJ Japanese public and Nakasone's potential successors that cooperating with US, playing larger role in global economic and political management pays off in US respect.