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between the two countries.

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The Secretary said that it was his personal conviction and that of the President and the whole Administration that the US relationship with Japan was the fundamental anchor of the US policy in Asia, the Pacific, and, indeed, the trilateral relationship between the US, Japan and Europe. It is essential we build on this relationship and improve it even further. Saying he would not go into great detail, the Secretary outlined briefly the approach of the new Administration. First, overall policy must be supported and strengthened by improving the military balance of the US with respect to the Soviet Union. This is the single exception in our budget in a period of austerity. Second, it is the Administration's intention to revise the kind of partnership we hold with our allies and others of like views and to strengthen these relationships. This would be done through true consultations -- not just through provision of information -- but consultations in the true sense of the word. This aspect is more urgent in a period when all are faced with shrinking natural resources, difficulties in access to energy, and a potential for trouble in the Third World.

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The Secretary continued, noting it is clear the US cannot achieve its first two policy objectives unless we reverse our serious internal economic situation. President Reagan has announced a multi-faceted plan designed to seize control of runaway inflation. This has several aspects including tax relief, relief for the private sector, and relaxation of regulatory requirements. In addition, there will be efforts to control the monetary supply in a better manner. In the past, problems have been addressed by printing more money. This has not proved successful and we have been unable to maintain interest rates at an acceptable level. There are those who would call the present approach supply side economics, The Secretary said he called it sound economics.

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The Secretary said there was a rather full agenda and suggested getting through as much of it as possible before the lunch so that discussion at that time could be more general and informal. The Foreign Minister said he agreed to proceed in that manner and suggested that discussions begin with the automobile problem, which was not conducive to good digestion.

The Secretary said that the problem in the automobile industry in the US is not the result of Japanese competition. On the other hand, there are many who hold this erroneous perception and their views are buttressed by the continuing imbalance in trade between the US and Japan. The automobile industry in the US is a very special industrial asset and is in the main area of our economic vitality and employment. The austerity programs of the new Administration will apply to other sectors of our society and are raising the specter of restrictive legislation in the U.S. Congress. There is already draft legislation being discussed in various committees which provides full restriction; such legislation worries us greatly. There is no need to emphasize that the pressure on the US is more than matched by the protectionist urge in Europe where

UNCLASSIFIED

UNCLASSIFIED

- 3 -

short-term economic prospects are extremely gloomy. Our basic concern is to preempt in both Europe and the US the protectionist trends by some manifestation in the near-term of Japanese restraint in the area of small car and small truck exports. The Secretary recognized there was a certain shock value in what he had just said.

The Foreign Minister pointed out that while the Secretary had referred to the large trade imbalance between the US and Japan, it was his view that trade imbalances should be looked at in a global perspective. While Japan has a surplus with the US, it is in deficit to other countries and is running a current account deficit this fiscal year of about \$6 billion. Japan appreciates the fact that the automobile industry has very large repercussions within the US and elsewhere. We should remember the contentious dispute over textiles which resulted in fierce discussions over a two-year period during which emotions became very frayed. We must not repeat such a situation. We must use our mutual wisdom to work out a solution. The Foreign Minister agreed that the US auto problem was not due to Japanese exports. Such exports were not the cause of the US automotive industry's difficulties. This is a view that is widely shared by the Japanese people, who believe that Japan has maintained the principles of free trade and should not be held as a culprit in the current situation. The Foreign Minister said when he had been in Washington last September, he had recommended waiting for the findings of the ITC before reaching a decision. Currently he has been asked in the Diet about the automobile situation and has consistently stated that Japan should wait for the auto task force report to be released before trying to work out its response. The Prime Minister has taken the same line. Having said that, the message received from the Secretary just prior to his trip had been rather shocking. The Foreign Minister said he could appreciate our concern over the protectionist trend which was gaining strength in Congress and in Europe because of the latter's gloomy economic prospects. The Japanese public realizes that the conclusions of the task force report were not yet public. However, for Japan to work out a solution and to persuade its people, it would be extremely helpful if they knew what was being planned in regard to domestic efforts by the USG. If it had a clear picture of these efforts it would help to make a stronger explanation in Tokyo. The Foreign Minister said that the message he had received just before departure had made reference to certain levels and methods and the Japanese government was not yet prepared to respond in specific terms.

The Foreign Minister stated it was important that someone designated by the Secretary be sent to Japan to talk about the task force report and the outlines of US domestic measures. With a clear picture of these two items, it would be easier to explain why Japan should cooperate with the US. They would also need more specifics on the timeframe envisioned and how the steps being proposed might be viewed under US anti-trust legislation. It is important to Japan to have the opportunity of such discussions with a representative of the Secretary. In trying to work out the timing for such a visit it is importa

UNCLASSIFIED

UNCLASSIFIED

- 4 -

remember several points. First, a close eye must be kept on developments in the US Congress. Second, the Prime Minister will leave Tokyo for the US on May 4. To develop thinking on the process, it is important that the Foreign Minister and Secretary keep in touch through the diplomatic channels. The Foreign Minister said he appreciated the point that there was a need to preempt protectionist pressures and Japan is also deeply aware of the difficult plight of the US automobile industry. With these facts in mind, they will make an effort to see that we come out of this with something to assist the US which has been developed according to Japan's own judgment. It would be a bad mistake to allow this problem to become political. The Foreign Minister then quoted his favorite Chinese proverb: "we should try to reduce big issues to small issues, and then reduce small issues to nothing".

The Foreign Minister asked two questions. First, what kind of agreement does the US have in mind? Does it think a government-to-government agreement would be best or is the US looking for a truly voluntary step by Japan? Second, what is the basic thinking of the US side on steps to help the US industry? The Foreign Minister added that the current level of Japanese automobile exports to the US was running at about 1.8 million. This was in part a result of the government's efforts in the background to ensure prudent export. If the GOJ had not involved itself, the current figure might well be one in excess of 2 million units. The Foreign Minister said that when he had showed the Secretary's message to him to the MITI Minister -- a message which had talked of levels based on the 78-79 average -- the MITI Minister, Tanaka, had jumped out of his chair. That was really shocking.

The Secretary said we were not seeking a formal agreement, but rather voluntary guidelines by the Japanese on which both sides had expressed their views and had the ability to assist in developing. The internal measures are being taken on two levels. First was the President's program which has already been announced and is aimed at developing an economic recovery program. This involves tax reform, incentives for increased R&D and the associated write-offs for US industry, and broad regulatory reforms. This regulatory reform would cover everything from environmental regulations to other aspects of central government financial management. The second range of measures would flow directly from the recommendations of the task force. These would focus specifically on the automobile industry and would be related to reforms to assist it. The study also arrived at a confrontational lack of consensus on import levels from Japan. (Ambassador Okawara commented that US newspapers had been running a daily scoreboard on the Cabinet differences). Indeed, the study coincides with the protectionist mood in Congress which gives a sense of urgency to putting this issue behind us to prevent developments which we are all concerned about. Certainly the official we send to Tokyo can easily be armed with specifics on both of these programs so that the Japanese government will have a clear picture of our intentions in this matter.

UNCLASSIFIED

UNCLASSIFIED

- 5 -

Foreign Minister said it was very important that the official designated by the Secretary have the specifics so that he can fully inform the Japanese government. The government needs to be in a position to explain why Japan should take voluntary measures on exports and how such measures will help the US recovery. There is also the precedent of the discussions on NTT (Nippon Telephone and Telegraph) where Governor Askew made several trips to Japan. Clearly Japan cannot designate the person for the US side, but will look forward to learning the Secretary's choice. Finally, The Foreign Minister said that with the advent of the new Administration there had been increased discussion of linkages. He discussed the hope that the auto situation would not be linked with other trade problems like leatherwear. He asked the Secretary what timeframe he had in mind for developing this program.

The Secretary said there was some urgency. We hope to have a clear picture of the framework on which to proceed prior to the visit of Prime Minister Suzuki. We believe that our representation would be at least composed of an officer from the Department of State and an officer from the USTR. It is our intention to deal with this issue in tandem. The group might also include specialists or experts from Treasury and the Department of Commerce. Finally, the Secretary noted, the study found that lower imports would have a beneficial impact on employment. This is not inconsequential in light of the President's program and our need to have early progress in this area. The Secretary asked who the Foreign Minister thought would speak for Japan.

Foreign Minister said that Dr. Okita, his predecessor as Foreign Minister, was the spokesman for Japan on the economic side and would be invited. He also expected Minister Tanaka or MITI to take part. Finally, he said that he would invite himself to handle the foreign policy aspects of the issue. The Secretary said that this was an impressive array of authority and one which he was quite comfortable with. The Foreign Minister said ~~the automobile issue turn into another textile problem. We must resolve this question amicably, he declared.~~ The Secretary said he was familiar with the textile problem and that he had learned a great deal of the problems involved when he worked under Henry Kissinger at that time. He had also met many academics in Tokyo. The Foreign Minister asked why the Secretary did not make a sentimental journey to Tokyo to resolve the automobile issue. He then asked if there would be some reference to the automobile issue in his meeting with the President tomorrow. The Secretary said he was sure that the President would have some words to express our great concern on this matter.

Before going to lunch, the Secretary suggested that the East/West problem be discussed and the Foreign Minister agreed. The Secretary said the Minister may have detected a degree of robustness in our statements on East/West issues in the new Administration. We felt that for too long the US, and the West at large, had overlooked the propensity of the Soviet Union to intervene either directly or through proxies in Afghanistan, the Middle East, Southeast Asia, Africa, and recently in our own hemisphere. We would be less than frank if we didn't say the West had failed to counter earlier Soviet moves in Angola, Ethiopia,

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Kampuchea and the first moves in Afghanistan. This had misled the Soviet leadership which continued to intervene with little opposition in areas of importance to the West. Such intervention also subverted the aspirations of these countries to develop their own course, which is their right.

The Secretary stated that the US considers this Soviet activity to be a violation of the 1972 agreement and thus is counter to detente. We will remain dedicated to linkage in the full range of our relations with the Soviet Union: trade, credits, technology transfer, arms control, as well as in our recognition of the political legitimacy of a regime which was increasingly a model of Marxist-Leninist failure; not success, but failure.

The Secretary said that we are, in the case of Japan, grateful for the cooperation we have received since the Afghanistan invasion. We are as concerned as Japan over the growth of Soviet forces in the Northern Territories, their growing naval power in the Pacific, and the 30,000 Soviet troops in Mongolia. In this regard, the Secretary said he had taken the opportunity in a talk with former Prime Minister Fukuda last week to emphasize that Japan's sovereignty is best assured by the development of all aspects of nationhood. This is the way he had answered the question on Japan's defense role. He said he believed that international peace and stability were best assured by a West where all nations, including Japan, had their own organic defense capability. This will allow us to better manage and cope with the threat from the East.

The Foreign Minister thanked the Secretary for his comments and said that a consistent and reliable US policy was an important factor not only for the US, but for the world. Without such consistency Japan would find the world a difficult place. Japan expects to see strong leadership by the US and an effective strengthening of the solidity of the Western world, with the US taking a lead. This is most important to world peace. Japan would also expect to take its place and play its role in the Western world and will develop its own defenses in keeping with the requirements and constraints upon such activity. The question is what does Japan do as a member of the Western world? In Japan's view the issue should be addressed not only in terms of defense but also through diplomatic activity and economic efforts, that is, a comprehensive approach.

The Foreign Minister said he wished to express his views on economic cooperation with the developing world. In Japan's policy great attention is placed on the North/South problem. If these problems are not solved, instability in the South can be used to advantage by the Soviet Union. It is important that the

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- 7 -

Western nations not take actions which drive these developing countries toward the Soviet Union. He said these comments were necessary because of recent journalistic speculation that the emphasis of the new US Administration was shifting from viewing the North/South problem as a totality toward a policy which makes distinction between friends of the US and others in the Third World. In this formulation, the US would place emphasis on helping the former rather than the latter. He said he did not know if this was true, but Japanese policy did not pick and choose between members of the Third World. It was Japanese policy to attempt to bridge the gap between the North and the South.

With respect to relations with the Soviet Union, The Foreign Minister said that relations were currently cool. In part this was due to the continued Soviet occupation of the Northern Territories, which Japan claimed as its territory, and indeed the Soviets had now deployed troops on those islands. Japan will continue to seek the return of this territory as it deals with the Soviet Union. Secondly, after Afghanistan, relations between Japan and the Soviet Union cooled to the extent that there were virtually no ministerial exchanges or any exchanges of very important visitors. Japan did not participate in the Olympics and has continued to be restrictive in granting new credits, viewing them on a case-by-case basis. In the area of technology transfer, Japan has abided by the conditions imposed by COCOM. The Foreign Minister told the Ambassador that there was no change in Japanese policy in regard to these two areas.

The Foreign Minister asked what the current US thinking was on the exchange of high-level visits with the Soviet Union and on large economic projects. He asked if the US would continue to maintain the grain embargo. He expressed concern that should the Soviets and the US find themselves in total confrontation, this could lead to a threat of nuclear war. All nations were concerned in such an event. Thus there was great interest in Japan over the question of arms control, and especially of the SALT talks. He asked what the Secretary's thoughts were on arms control discussions with the Soviet Union. Finally, he asked for the Secretary's views on the Brezhnev proposal, for a Summit meeting contained in his speech to the Party congress.

At this point the meeting broke to reassemble at the luncheon table.

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