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FOR REILLY, ERD

TOKYO SUMMIT: JAPANESE PREPARATIONS FOR BROCKET HALL MEETING

1. IT MAY BE USEFUL TO REPORT SOME POINTS WHICH SHIBUYA, SENIOR ASSISTANT IN TESHIMA'S OFFICE IN THE MFA, MADE TO US ON 27 FEBRUARY IN REFERENCE TO THE LARGE AMOUNT OF SPECULATION IN THE JAPANESE PRESS RECENTLY ABOUT VARIOUS PROPOSALS WHICH THE JAPANESE SIDE MIGHT PUT TO THE SUMMIT. IN SUM, HE FORECAST NO SURPRISES. WITH APOLOGIES FOR TREADING OVER PROBABLY FAMILIAR GROUND, THE FOLLOWING ARE THE POINTS HE MADE.

2. SHIBUYA CONFIRMED THAT THE JAPANESE WOULD BE PUTTING TWO PAPERS TO NEXT WEEK'S MEETING. THE FIRST WAS A REVISED VERSION OF THE THEMATIC PAPER CIRCULATED IN HONOLULU, TAKING INTO ACCOUNT COMMENTS AT THAT MEETING. THIS SHOULD ALREADY HAVE BEEN DELIVERED BY THE JAPANESE EMBASSY. SHIBUYA SAID THE PAPER LINKED THE QUESTION OF GROWTH WITH THAT OF REDRESSING EXTERNAL IMBALANCES: THE JAPANESE GOVERNMENT WISHED TO SEE THE PROBLEM OF TRADE SURPLUSES SOLVED WITHIN THE CONTEXT OF OVERALL GROWTH IN THE DEVELOPED ECONOMIES, AND NOT THROUGH RESTRICTIVE MEASURES. THE SIZE OF THE JAPANESE BUDGET DEFICIT LEFT NO ROOM FOR EXPANSIONARY POLICIES, AND THE GOVERNMENT WOULD MAINTAIN A PRUDENT FISCAL POLICY. BUT THERE WAS RECOGNITION OF THE NEED TO INCREASE THE ROLE OF DOMESTIC DEMAND IN JAPANESE GROWTH, AND SHIBUYA HINTED AT THE STRONG POSSIBILITY OF FURTHER MEASURES IN THIS AREA BEING ANNOUNCED BEFORE THE SUMMIT (SEE GOMERSALL'S LETTER OF 24 FEBRUARY TO FED ABOUT THE MAEKAWA COMMISSION).

3. DESPITE MUCH PUBLIC SPECULATION ABOUT MECHANISMS TO STABILISE EXCHANGE RATE FLUCTUATIONS, SHIBUYA SAID THE MINISTRY OF FINANCE REMAINED FIRMLY OPPOSED TO ANY NEW MECHANISM, AND NO NEW JAPANESE PROPOSAL WAS TO BE EXPECTED. THEIR VIEW WAS THAT THE PROCESS SET IN TRAIN AT THE G5 MEETING LAST SEPTEMBER HAD BEEN EFFECTIVE SO FAR, AND THAT THE NECESSARY APPRECIATION OF THE YEN, WHICH WAS WELCOME TO THE JAPANESE GOVERNMENT, HAD BEEN ACHIEVED WITHIN THE PRESENT SYSTEM. THERE WAS THEREFORE NO SUPPORT FOR MAJOR INTERNATIONAL MONETARY REFORM. PRIVATELY, THEY ALSO DOUBTED WHETHER THE US INTENDED TO PURSUE THE IDEA OF A MONETARY CONFERENCE VERY FAR.

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4. THE SECOND JAPANESE PAPER WOULD BE A SURVEY OF RESEARCH FROM VARIOUS SOURCES ON THE IMPACT OF THE DECLINE IN OIL PRICES. THE JAPANESE VIEW WAS MORE CAUTIOUS THAN THAT OF OTHERS ON THE GROUNDS NOT ONLY OF THE IMPACT OF FALLING OIL PRICES UPON CERTAIN OF THE LDCS, BUT ALSO OF ITS NEGATIVE IMPACT UPON THE DEVELOPMENT OF ALTERNATIVE ENERGY RESOURCES.

5. THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY ARE CURRENTLY DEVELOPING A PROPOSAL ENTITLED 'THE HUMAN FRONTIER PROJECT' FOR A MAJOR LONG TERM RESEARCH PROJECT, FUNDED PREDOMINANTLY BY JAPANESE MONEY, TO STUDY THE POSSIBILITY OF ARTIFICIALLY REPRODUCING CERTAIN BIOCHEMICAL MECHANISMS OCCURRING IN NATURE. THIS WAS MENTIONED TO HUTTON (DTI) AS SOMETHING THE JAPANESE MIGHT PUT FORWARD AT THE SUMMIT WITH A VIEW TO TAKING A DECISION ON IT IN 1987, BUT SHIBUYA MADE CLEAR THAT THIS IDEA HAD NOT YET BEEN PUT TO THE PRIME MINISTER OR CLEARED BY OTHER DEPARTMENTS.

6. SHIBUYA REFERRED TO SIR R ARMSTRONG'S MESSAGE ABOUT COMMUNITY PARTICIPATION. THE JAPANESE PROPOSAL FOR THE PLENARY MEETINGS WAS STILL THAT THE COMMUNITY SHOULD BE REPRESENTED BY THREE, INCLUDING THE PRESIDENCY. HOWEVER PRIVATE EXCHANGES WITH LAMY WERE CONTINUING, AND THEY HOPED THAT THESE WOULD PAVE THE WAY FOR AGREEMENT AT NEXT WEEK'S MEETING.

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