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THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Hikaru Matsunaga, Minister of Trade and Industry (MITI), Japan (Ø)

PARTICIPANTS: The President
Brent Scowcroft, Assistant to the President for National Security Affairs
Karl D. Jackson, Senior Director for Asian Affairs

Hikaru Matsunaga, Minister of Trade and Industry (MITI)
Ryohei Murata, Ambassador to U.S.
Naomichi Suzuki, Vice Minister for International Affairs, MITI
Masahisa Naito, Director-General, International Trade Administration Bureau
Koji Tsuruoka, Interpreter

DATE, TIME: January 11, 1990, 10:15 - 11:00am EST
AND PLACE: Brent Scowcroft's Office

General Scowcroft welcomed Minister Matsunaga. Ambassador Murata indicated that he was carrying a letter to President Bush from Prime Minister Kaifu describing the purpose of Minister Matsunaga's visit. (Ø)

Minister Matsunaga: "The first purpose is to express appreciation for your efforts, which have led martial law to be lifted in China, and to the major developments that have taken place in Eastern Europe. The second purpose concerns what Prime Minister Kaifu told the President during his visit to the United States, namely that Japan would become a major importing country. I am here to present you with several of the most important provisions of this program." (Ø)

"On lifting of martial law in China, we view this as one step forward. We pay tribute to you. We hope that the World Bank can reopen its loans to China and we will move forward in close consultation with the United States." (Ø)

General Scowcroft: "Thank you for the letter. I hope the President will drop by here in a few minutes to speak with you. You can hand the original copy to the President directly." (Ø)

"We agree with you on moves taking place in China and Eastern Europe. As a consequence of these moves, even closer cooperation

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with Japan is called for. In this very dynamic world there are rapid changes, not only in China and Easter Europe, but also in the Philippines and Cambodia. Therefore, the United States and Japan must stay in close contact on all of these matters." (Ø)

"With respect to China, we have a delicate situation. During my stop in Tokyo, I explained to the Prime Minister what I found in China. I explained what China had to do to break out of the isolation it had placed itself in as a result of the events of last June. China has taken a number of steps, some bilateral and some multilateral, which indicate China knows what needs to be done and is prepared to take steps to repair the damage done by its actions last June. China has made useful statements on controlling the proliferation of missiles, especially in the Middle East, and on lifting martial law. On bilateral issues, they have resumed discussion of the Fulbright program, a VOA correspondent is back in Beijing, and talks have been resumed on the Peace Corps returning to China in the fall." (Ø)

"All are useful steps but we still face two issues requiring careful management. One issue is to continue to encourage China to take additional steps to restore its position as a useful and reforming power on the world stage. The second issue is to bring Congress along, to avoid additional sanctions and to begin lifting sanctions." (Ø)

"We have told the Chinese there are two additional steps for them to take: 1) releasing Fang from our Embassy in Beijing, and 2) issuing some kind of public statement of amnesty for students who participated in the demonstrations but did not take part in criminal activities. I am moderately hopeful that China will do something in this regard. It is very important for our ability to manage Congress." (Ø)

"Our notion is that we should reward steps along the way back toward reform. As a result of lifting martial law, we agreed to permit some basic human needs loans to go ahead, but on a case-by case-basis, and very slowly. The reason we are doing it this way is to encourage China to stay on the path to reform. This is all we anticipate doing on U.S. policy at this point. We hope you will also act with the same restraint and not open up completely, lest we remove all incentives for China to continue changing." (Ø)

"We believe it is very important to move together and to encourage the forces of reform rather than the forces of reaction in China." (Ø)

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Minister Matsunaga: "I share the same thoughts, and look to China with the open expectation that China will present itself to the world more openly and democratically, and this will be the guide to our actions." (Ø)

The President entered the meeting at this point and asked about Prime Minister Kaifu. (U)

Minister Matsunaga: "I am greatly honored to deliver this message to you personally. I was in Texas before Washington. In Texas, your son gave me a very fine, autographed baseball." (U)

The President: "You should send him to Japan to watch some of your games." (U)

Minister Matsunaga: "In his letter to you, Prime Minister Kaifu says that against the background of a rapidly changing world we need to strengthen even further cooperation between the U.S. and Japan." (Ø)

The President: "That's what I wanted to talk about. I have been talking to General Scowcroft about the importance of building on what I think of as a close, personal relationship with your Prime Minister. When I see a Diet Pin, I have great respect. We are watching Prime Minister Kaifu with respect as he manages a very difficult political situation. There are changes in Eastern Europe and more democracy is coming to the Western Hemisphere. Our bilateral relations are good, but we also have big problems that he and I must keep on the same wave length about, just as you must stay in tune with your colleagues here in Washington. We will watch for some opportunity for Prime Minister Kaifu and I to sit down outside of the context of the summit. We must deal with the tensions in the relationship so that we can strengthen it rather than see it begin to crumble at the edges." (Ø)

Minister Matsunaga: "As Trade Minister, I will make my best effort to deal with the trade problems between Japan and the United States. We will establish concrete measures to stimulate imports. I have already briefed the Vice President on these." (Ø)

The President: "The Vice President already told us about these this morning. This is very important. I am worried about the mood in Congress, but I believe this situation can be managed." (Ø)

"Please tell Prime Minister Kaifu I will work with him. I like this man. The chemistry was very good. I want to keep a very good relationship." ((Ø))

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"With regard to China, the closer we stay together on our policies, the better." (Ø)

"I will look forward to following up (on the subjects raised in Kaifu's letter) with the Cabinet and with Prime Minister Kaifu himself." (Ø)

Minister Matsunaga: "I will convey your very warm greetings to the Prime Minister." (U)

(At this point, the President left to attend another meeting and Minister Matsunaga returned to his description of the import expansion program.)

"The import promotion expansion program has been developed by the LDP and MITI. We should not rest on this, but I am proposing a joint program with the U.S. Department of Commerce. I will be discussing this with Secretary Mosbacher." (Ø)

"In brief, the import promotion program has four pillars: 1) an import promotion tax credit of 5 percent, 2) abolition of 1004 tariff items, including ones of special interest for Americans, 3) dispatching experts to the United States to look for imports to Japan in coordination with the U.S. Commerce Department, and 4) loans to finance import related activities in Japan. We hope that the net effect will be approximately \$4 billion." (Ø)

General Scowcroft ended the meeting by saying that we would study the program carefully. (Ø)

-- End of Conversation --

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