

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: First Main Plenary Session of the 16th
Economic Summit of Industrialized Nations

PARTICIPANTS: George Bush, President of the United States
James A. Baker, Secretary of State
Nicholas F. Brady, Secretary of the Treasury
Richard McCormack, Under Secretary of State
for Economic and Agricultural Affairs

Francois Mitterrand, President of the French
Republic

Roland Dumas, Minister of Foreign Affairs
Pierre Bérégovoy, Minister of Economy,
Finance and Budget

Jacques Attali, Special Counsellor to the
President of the French Republic

Margaret Thatcher, Prime Minister of the
United Kingdom

Douglas Hurd, Secretary of State for Foreign
and Commonwealth Affairs

John Major, Chancellor of the Exchequer

Nigel L. Wicks, Second Permanent Secretary
to the Treasury

Helmut Kohl, Chancellor of the Federal
Republic of Germany

Hans-Dietrich Genscher, Vice Chancellor and
Federal Minister for Foreign Affairs

Theo Waigel, Federal Minister of Finance

Horst Kohler, State Secretary, Ministry of
Finance

Brian Mulroney, Prime Minister of Canada

Joseph Clark, Secretary of State for External
Affairs

Michael Holcombe Wilson, Minister of Finance

Derek Burney, Ambassador to the United States

Gullio Andreotti, President of the Council of
Ministers of Italy

Gianni De Michelis, Minister of Foreign
Affairs

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Guido Carli, Minister of the Treasury
Umberto Vattani, Diplomatic Counsellor to the
Prime Minister

Toshiki Kaifu, Prime Minister of Japan
Taro Nakayama, Minister for Foreign Affairs
Ryutaro Hashimoto, Minister of Finance
Kabun Muto, Minister of International Trade
and Industry
Koji Watanabe, Vice Minister of Foreign
Affairs

Jacques Delors, President of the Commission
of the European Communities
Frans Andriessen, Vice President of the
Commission of the European Communities for
External Relations
Henning Christophersen, Vice President of the
Commission of the European Communities for
Economic and Financial Affairs
Pascal Lamy, Chief of Staff to the President

DATE, TIME Tuesday, July 10, 1990, 9:00 a.m.-12:03 p.m.
AND PLACE: O'Conner Room, Herring Hall, Rice University
Houston, Texas

1. Political Declaration

The President: I gather that we have an agreement ad ref on the
political declaration. Secretary Baker will read the political
declaration covering other issues. (Ø)

We want to get this matter cleared away and move on to discussion
of the Soviet issue and language relating to it for the
communiqué. (Ø)

2. China

If we get through all that, then we can move on to trade. Now,
let's get moving on China. (Prime Minister Kaifu hands the
President a new sentence regarding China for inclusion in the
political declaration.) I'd like to raise now the Japanese
amendment. (Ø)

Prime Minister Kaifu: Regarding paragraph 4 on China, the
present formulation is too tough on China. The second sentence
gives the impression that sanctions will continue until next
year. This will send the wrong signal to China. (Ø)

We must be ready to adjust our positions if China makes progress.
We will keep the sanctions under review so that we can respond to
further positive developments in China. That is the essence of
the language I have proposed. (Ø)

Prime Minister Thatcher: I support Prime Minister Kaifu. (Ø)

Chancellor Kohl: I also support the Japanese proposal, but I will have something to say about the USSR later. (Ø)

Prime Minister Andreotti: I too support the amended text. (Ø)

President Mitterrand: I support the text. The initial draft was amended considerably last night by the Sherpas. China is the object of commercial interests. That may be guiding some of us in our policies. Personally, I think the language is too weak, but I will go along.

Prime Minister Mulroney: I support the text. (Ø)

The President: I do too. (Ø)

Unidentified Speaker (possibly Secretary Baker): If we are not careful, then this exercise could be counterproductive, but we'll go along with the Japanese. We thus have approval for the whole political declaration. (Ø)

Secretary Baker: I would like to offer a proposal on the wording in the China paragraph of the declaration, "however," to replace "for example." It should be the reverse. "For example" should replace "however." (U)

3. Soviet Union

The President: I would like to turn to the USSR. Gorbachev has sent me a letter asking for a large-scale assistance program. But the Soviets have not been very specific in saying what they would do with this money. Gorbachev identified long-term credit assistance, attraction of foreign capital, transfer of managerial experience and personnel training as among his reasons for seeking Western aid to create a competitive economy. He also suggested a sustained economic dialogue with the G-7. (Ø)

I have said publicly that I wish to help the Soviets' reform process and that the U.S. has a major stake in seeing perestroika succeed. Without reforms, there will be no growth. Substantial Western foreign assistance to him at this time, when market-based reforms are not in place, would not be effective, would not further productivity and growth, and would not increase the Soviet ability to service Western loans. (Ø)

Even though we may assess the situation in the Soviet Union somewhat differently and may decide to respond to Gorbachev's request in varying ways, I believe we should act in concert as much as possible. We share enough common ground to build a general G-7 framework to demonstrate to the Soviets a unified Western policy. (Ø)

I would propose then that we try to reach agreement on certain basic principles which could guide our individual decisions on assistance for the USSR. These principles are sufficiently flexible to permit some to move ahead faster than others. (Ø)

For our part, we remain concerned about Soviet aid to Cuba and continued high military spending in relation to GNP. (S)

These principles would rest on shared views about the Soviet Union and its participation in the world economy:

-- The Soviet economy does indeed face serious challenges.

-- We want Soviet political and economic reform efforts to succeed.

-- It is in our interest to have a reformed, fully functioning and market-oriented Soviet economy integrated into the world economy. (S)

The three principles I would offer are the following:

1. Any Western assistance, technical or financial, should be linked to an economic system and the USSR's integration into the world economy.

2. Soviet steps to reduce the proportion of their economic output devoted to the military will have an effect on our decision to provide assistance.

3. Equally, Soviet decisions to provide foreign aid to regimes that consistently act contrary to the objectives of the international community of states will also affect our willingness to offer assistance. The Soviets should make good-faith efforts to build a cooperative and stable international environment. (S)

If we could reach agreement on principles similar to these, we could ask for our Foreign Ministers to work out acceptable language for the communique.

(Note: uncertain from Sherpa's notes whether following was used)

To be more specific, we could ask the IMF and World Bank, acting on our behalf, to assess the Soviet economic reform program. (S)

While we may each go our own way on financial assistance, I propose we agree in the communique to consult regularly among ourselves on this issue, keeping in mind these principles as a general guide. In response to Gorbachev's request in his July 4 letter, we could also pledge to consult with the Soviets on their reform program. (S)

For our part, we could take several steps to reinforce our interest in perestroika's success and normalize our economic relationship with the Soviets. Initially, these might include:

-- Step up the pace of our negotiations with the Soviets on the Tsarist and Kerensky debts to the U.S. Government. An agreement would overcome one of our legislative restrictions and

would allow the Soviets to gain access to our private financial markets for loans and to sell Soviet debt instruments in the U.S.

-- Accelerate current negotiations on the Bilateral Investment and Tax Treaties. A successful conclusion to both would provide more favorable conditions for our firms and would encourage them to do more business in the USSR.

-- Agree to a Soviet request to extend the repayment period for Lend-Lease claims totalling \$674 million owed to the U.S. upon successful conclusion of a trade agreement.

-- Expand our existing technical cooperation program with the Soviets in which we provide private and public sector advice and exchange programs to assist in the transformation to a market economy. (Ø)

But movement towards considering lifting restrictions on our ability to provide government guarantees and direct credits will await further Soviet actions to liberalize their economy and to address the various political concerns we have. (Ø)

We need to give the Soviets an incentive to reform, to shift resources from the military. This approach would be in our mutual interests. It is impossible for the U.S. to loan money to USSR at this time. I know, however, that others won't agree. (Ø)

President Mitterrand: The argument put forth for helping China is just the reverse when we are dealing with USSR. (Ø)

We are too timid in this text regarding aid to the USSR. We have a chicken or egg problem -- whether to provide aid first or demand reform first. Which comes first? One could lead to the other. Much has been achieved in the USSR in past months. Yes, the Soviet economy is closed, but it is because they lack the manpower to carry out reform. We should be more optimistic. We need to prime the Soviet engine. The Soviets will not understand our reluctance to aid Gorbachev. The EC, which is not unanimous, wants to contribute aid to the USSR. I am reluctant to endorse the specific text before the group, since the EC has already gone ahead farther than this. I worry that Gorbachev will fail. A reaction could occur. This is an historical turning point for the USSR. We need to weigh in. I am reluctant to adopt this text because it is too reticent, too hesitant. (Ø)

In the third paragraph of the text, the concerns expressed are standard and straight-forward. In our language, these represent harsh political conditions as a preliminary to extending aid. (Ø)

The IMF reference is also a question. The U.S. language is too brisk, too much like an ultimatum. The USSR is already unstable, and we are sending the wrong -- and too harsh -- a message to the USSR. It is too patronizing in tone. We can't proceed like this. It would be pointless, irritating and patronizing to the

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USSR. I strongly oppose the IMF reference. The IMF reference sends the wrong message. We need to mention the IMF and World Bank, but also the OECD and the EBRD. I cannot support this text. (S)

Chancellor Kohl: I understand President Bush's position; I welcome the opportunity we have to speak so openly about controversial matters like this. I do not support the text either and request the Foreign Ministers to take it up and modify it. (S)

The Germans have provided support to the USSR, but, clearly, this is not a long-term way to do business. We need to coordinate our approach, if possible. I do not think that a decision can be taken today. After the USSR finishes its long-term plans, by the end of the year, then we can collectively take broad decisions. (S)

We need to start the process of a study so that we can make decisions in December. We act as if reforms were taking place in China, and none in the Soviet Union. Think of the butchery in China last year. This sort of thing is not happening in the USSR now. We need a yardstick that applies uniformly both to China and the USSR. (S)

What do we really want from the USSR? We all want Gorbachev to succeed. His successor is likely to be much worse. We Germans are closer to the USSR than all of you. We are mindful of America's Cuban problem. (S)

I want to express my thanks for help on reunification. But we also have an opportunity to arrive at restructuring of the USSR. If Gorbachev succeeds, then the USSR will be much better in the future. This is a fact. We need to use the opportunity to influence positive developments. Gorbachev's letter represents a positive development. We should not treat it as we would a letter from the Congo. We cannot reply in a discouraging way to Gorbachev. I support President Bush's point that our aid should not be mindlessly thrown at the USSR. It must be addressed at a concrete program of reform. Experts, specialists must be provided. We should make our response positive. (S)

I support a market philosophy and am committed to the EC decision on USSR aid. Solidarity is a two-way street, but I see an historical opportunity and don't want us to miss it. The Eastern European countries, Poland and Hungary in particular, have problems. If the USSR does well economically, then this will help Eastern Europe. We need to think about this linkage. (S)

I would ask the Foreign Ministers to draft a statement pointing out that there are elements in common and some differences in this statement. Let's not pretend we are all in full agreement. (S)

I am more than ready to agree to send experts to the USSR. (S)

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The President: There are differences between China and the USSR. The export of revolution from China has stopped or at least improved. China does not target U.S. cities with nuclear weapons. We are concerned about decisions taken at the EC Summit two weeks ago. We need to take some decisions at this meeting where we are all present. We don't want to send a negative message. Let's have the Foreign Ministers draft a text that encourages reforms. But the U.S. would be prepared to stand alone if need be on the issue of aid to the USSR. (Ø)

Finance Minister Carli: There are three points we should consider: (1) reforms in the USSR have the possibility of success; (2) lack of success has consequences; (3) there are steps we should take despite uncertainty. (Ø)

Look at the present group running the USSR. The average Soviet citizen expected a convertible ruble in the recent past. But there is no meaningful price system in the USSR. Production is not done by planners, but by price signals. The Soviets don't know how to respond to price signals or to organize an economy that is based on this principle. They lack educated personnel to lead a market economy. They need help and advice. (Ø)

Italy is a neighbor of Eastern Europe and is concerned about a failure of reform in the region. The lack of success in the USSR would be a terrible blow to the rest of the region. All of these facts should allow us to conclude that we should help Gorbachev. (Ø)

There is value in close dialogue with the USSR. We must take some risks in helping Gorbachev. It is necessary, as requested by Gorbachev, to have a close dialogue, a direct dialogue, not just through the international organizations. Maybe the IMF will not understand the full complexity of the USSR situation. Mr. Delors' visit to the USSR could provide useful information. We need a dialogue to help us think about what kind of aid would be needed and well used by the USSR. There is the risk of misuse, but we need to run it. (Ø)

Prime Minister Mulroney: Gorbachev personally knows all of us at this table. CNN is covering the world. We watch him, he watches us. He knows that we know that he is on the ropes. He is waiting to see how we will respond. Gorbachev will not forget it if we stiff him now. We need to get a dialogue going. It would help to convey hope to Gorbachev and his people. The G-7 position is a desire to be helpful. The question is whether to help now or study the question first. Cuba is a problem. There are political and military problems for the U.S. with the Cuban situation. It is a hostile regime being helped by Gorbachev which creates problems for President Bush. (Ø)

The G-7 position should be to establish a good relationship with Gorbachev. Gorbachev is using our potential friendship to help him with his political situation inside the USSR. We need to help Gorbachev design an engine that will work with his economy. We should use the IMF in consultation with the EBRD to help him

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fix his economic design. We should be saying yes to Gorbachev's request for an economic dialogue. All of us should respond in a different way to the request, but we should be more forthcoming with our statement. I support Chancellor Kohl in that regard.

(Ø)

Prime Minister Kaifu: The USSR has embarked on efforts to build new relationships based on cooperation with other countries. The introduction of democracy and a market economy would be meaningful, and we should not minimize their importance. (U)

The USSR is in a mess. Gorbachev's opponents have been strengthened recently. We need to provide intellectual support for perestroika -- training, advice, etc. We have sent two economic survey missions to the USSR. But large-scale credits to the USSR and long-term agreements on investment are something that I am doubtful about. I doubt that financial support will be effective in helping the USSR. The USSR is still a military superpower. Financial support will help them to maintain their military machine. And we still have our problem with the Northern territories. (Ø)

It would not be appropriate to provide financial assistance to the USSR at this time. The OECD's center for transition can be helpful. The G-7 must respond positively in tone to Gorbachev's letter. President Bush should write the response himself. It should be encouraging in tone. The Foreign Ministers should review the text. (Ø)

Prime Minister Thatcher: There are no real parallels between China and the Soviet Union. In China, we are offering small changes in World Bank aid. With the USSR, we are thinking of massive assistance in some cases. We are thinking of ways of helping the Soviet Union with technical assistance. We can all agree to this. Management courses are already being done. Germany is offering substantial bilateral aid because of reunification. That entails honoring contracts with the GDR.

We are already doing a lot of good and different things to help Gorbachev. But it is a huge task. 200 million people over thousands of miles can only be helped if they help themselves. There are no statistics in the USSR; it's a mess. (U)

The Soviets haven't a clue as to what needs to be done to get a social market economy organized. (Reads the language on the USSR from the political declaration) This is good language. We have a good basis for facing the public and Gorbachev with this kind of language. How much debt does the Soviet Government have? There are \$48 billion in loans outstanding. Credit lines to the USSR are already in place. \$1.3 billion in debt is owed to the UK. The UK has offered other export credits which have not been taken up by the USSR. That \$48 billion debt puts other things in perspective. (Ø)

The USSR is rich in raw materials. It should be a rich country, but it is horribly mismanaged. There are different conditions in

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different parts of the country. All decisions must go to Moscow. There are no shortage of materials in the USSR, just an absence of knowledge on how to manage these resources. (U)

We need to talk up the IMF. We helped Poland. We provided grants, not loans. But on larger aid, we insisted on an IMF program first. Aid to the USSR not accompanied by reform will accomplish nothing except to accumulate new debts. We need to recognize that our aid must be limited, and we need to target our aid skillfully: food processing, transportation system reform, accountancy arrangements, statistics. The EBRD must be involved, too, somehow. We've all had a dialogue with the Soviet Union over the past five years. We need a broad-based dialogue with the USSR -- people-to-people -- to change attitudes. The McDonalds example in Moscow is good. Economic prosperity is harder to achieve than political liberty. You just can't hand it out, it must be worked for over a sustained time. (Ø)

The President: We have a consensus. (U)

Prime Minister Mulroney: (interrupts) McDonalds of Canada has opened up a Moscow store. It took seven years to get the thing set up. 20,000 people applied for the Moscow McDonald's 700 job openings. (U)

The President: President Mitterrand has the floor. (U)

President Mitterrand: Our ministers have a lot of work before them. Practical assistance could be offered to the USSR if the Soviets cleaned up their act in regional conflicts. (Ø)

The President: We need to craft a statement that is positive and that allows individual flexibility. We have mentioned certain principles. I agree that Foreign Ministers must now go to work. They should do it after lunch. (Ø)

Secretary Baker: We will have something done after lunch. (U)

4. Trade

The President: Trade is an important issue. An ambitious GATT round must succeed. Barber Conable of the World Bank wrote to ask for help in the GATT round. If we lifted the barriers to LDC trade, then they derive more benefits than from increased official aid. (U)

There is a need for movement in agriculture to save the round. We don't want a detailed negotiation here; we should establish goals. We must make sure that our negotiators confront the issue in Geneva in two weeks. De Zeeuw did his report on his own authority because the negotiators could not agree. The de Zeeuw report should be a basis for negotiation. I would like to ask for your help. If we can't do anything about agriculture, let's be up front in this meeting and admit that this will kill the Uruguay Round. (U)

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Unless we get movement on agriculture, the Economic Summit won't be seen as a success. (U)

Commissioner Andriessen: We need to make a real effort to bring the round to a successful completion. In public discussion, there is mainly a focus on agriculture, but there is much more in the Round. We are trying to bring goods and services, intellectual property, and other important matters into the GATT. In goods trade, the negotiators have two problems -- agriculture and textiles. Both are of interest to the Third World. Both agriculture and textiles are now outside the rules of GATT. We need to implement rules for both topics progressively. There are major problems for textiles and agriculture and also dispute settlement. A well-functioning dispute settlement mechanism can work only if people renounce unilateral measures. We need to agree on an early objective for the Uruguay Round. There must be an increase in disciplines on all kinds of subsidies that have a direct and indirect impact on trade. (U)

Farming in the EC is different than elsewhere. We have many small farms. I would like to see our agricultural system incorporated into a GATT framework. We will not move to zero reduction in support levels as an ultimate goal. This meeting should give only a clear political message to negotiators on the political importance of the negotiations and the necessity to make progress. We don't want to repeat the OECD clash. I want to reconfirm our determination in preparing for the TNC meeting to reach objectives on the Punta Del Este level and avoid getting into deeper levels of detail. (U)

Minister Muto: Japan supports Andriessen's suggestion. We want to bring the negotiations to a successful conclusion. On all 15 items, a maximum effort must be made to achieve a profile for negotiation at the TNC meeting in Geneva. (U)

Japan wants to stress the need for broader participation by the developing countries in the Round. We need to get them into this process for it to be successful. Therefore, as Andriessen mentioned, we must get a successful dispute settlement procedure that will make unilateralism no longer necessary. In intellectual property and investment, we need progress. For example, take the Trade-Related Intellectual Property Rights (TRIPS). In one LDC, there are only five patent examiners. Transitional measures will be needed to bring them up to speed. Textiles are important for the Third World.

Prime Minister Mulroney: Andriessen has pointed out some numbers on trade that are interesting. In Europe, on 1000 hectares, 70 people are employed. In Northern America on a similar farm, only 8 people are employed. This symbolizes the problem that the Europeans have. It also indicates the specific problem we have today with this kind of inefficiency. That is why we have trade and comparative advantage. EC productivity in agriculture is abysmal. (U)

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We understand your political problems, including those in Germany, but if productivity is the name of the game, then there is a problem of productivity in agriculture in Japan and the EC. Let's be frank. Those countries that are productive should not be penalized. (Ø)

I believe that we need to be statesmen and solve the agriculture subsidy problem. (U)

Let me read from the communique of the Cairns Group from their recent meeting in Chile. This group accounts for 25 percent of world agricultural exports. In the Cairns communique, Ministers expressed a sense of crisis. (U)

They asked that the Houston Summit consider the situation and that the de Zeeuw text be used as a basis for negotiation in the TNC. (U)

Canada supports this view. (U)

Australia has made real progress in reducing trade subsidies. We need to eliminate export subsidies over time. Then we need an appropriate blend of language in our Communique to make a meaningful step forward. I ask your support for a world trade organization. (U)

We spend a lot of money in the Third World to help developing countries, then we ambush them by over-subsidizing our own farmers too much. France, for example, is guilty of this. We don't expect miracles. We understand the political problems in Europe, but we hope to make some real progress here to avoid the collapse of the Uruguay Round which is now threatened. (Ø)

Prime Minister Thatcher: I agree with Prime Minister Mulroney on some matters. And I support President Bush's comment on the whole cost of agriculture: U.S.: \$46 billion; EC: \$93; Japan: \$68 billion. (U)

Let's consider the cost of agricultural support and protection. Take the percentage of farmer income. According to the OECD, the percentage of farmers' income that comes from government subsidies in Japan is 70 percent. For others, it's about half that level. So we have got to carry out what we have agreed to do about these things. (U)

Agriculture reform should be based on an aggregate measure of support. Let's all reduce agricultural support based on such a measure, emphasizing export subsidies. A highly technical discussion of the negotiating process with the aggregate measure of support offers a compromise. We should not be overly negative in the communique. (Distributes proposed language for communique.)

President Mitterrand: I support the EC intervention by Andriessen. The policy of the EC on agriculture is not harmful

to the developing world. The Lome agreement helps the Third World. The EC is the leading importer of food products. (U)

I want to defend the EC point of view. All of us must act together. We must adopt a global approach. Export subsidies and internal supports all hang together. We must reduce support. Reductions must be fair and balanced and ultimately substantial. (U)

Farming is different in different parts of the world, but the situation must be addressed globally. We don't need experts, we need to come to some agreement. Let us find a compromise. I will agree to any compromise that includes a global approach, so long as it recognizes that in individual countries, there are different conditions. I support the British approach. (U)

Foreign Minister Nakayama: We want the Uruguay Round to succeed with a maximum package. Food is a problem. Japan imports lots of food. Only 30 percent of the grain we use is domestic. In that regard, I want to stress the importance of food security. (U)

Secretary Baker: We need a positive approach, not the OECD approach. We have got to do more than cite our differences. There are fundamental problems going back a long time. We are not much further along. And we are running out of time in the Uruguay Round. (U)

We need to deal with this problem at a political level, not a technical level. We have the basis of an approach with the de Zeeuw report. The good news is that none of us agree with it. Maybe it has some merit for bridging a difficult gap. (U)

The Uruguay round is threatened. Let's try to avoid getting bogged down in detailed language by supporting the de Zeeuw report as the basis of negotiations. If we do this, we will have taken a major step forward. Let's ask the Sherpas to take a look at the de Zeeuw report. Are there any comments? (U)

Foreign Minister Nakayama: I support Baker's suggestion. (U)

President Andreotti: Maybe we could have a few moments to consult with experts. Let's have the Commission speak.

Commissioner Andriessen: We have some problems with the de Zeeuw report. We must study its implications. We have not made a decision yet, and I cannot take such a decision on behalf of the Community. The report is a fact, and it will be studied. I don't exclude that we can find a few words to express our view. (U)

Prime Minister Thatcher: I am more optimistic than Mr. Baker. The de Zeeuw report has a lot of useful things in it. I would ask Mr. Andriessen to be optimistic in tone. (U)

Commissioner Andriessen: I don't want to go into the merits of the de Zeeuw paper at this meeting. I hope we can find some words to describe the de Zeeuw report. (U)

Chancellor Kohl: This is a difficult moment. On agriculture, positions have hardened over the years, but we have the will to find a solution. I endorse Mrs. Thatcher's proposal. (U)

Let's see if we can't use Mrs. Thatcher's suggestion and take something from the American suggestion and see if the Sherpas cannot integrate these things into a positive document. (U)

President Mitterrand: I insist on this point. I want a compromise. Mrs. Thatcher's proposal is acceptable, or almost acceptable, but we can't do much more. Let the Sherpas do some work. (U)

President Bush: Prime Minister Andreotti has the floor. (U)

Prime Minister Andreotti: We need to remember that not only agriculture is on the table. The reform of GATT is also on the table. We need to deal with such things as unilateral measures, too. (U)

The de Zeeuw report could be a basis, not the basis, for negotiations. I want to consult Rome for advice. (U)

5. Regional Political Issues

The President: I would like to turn to regional political issues. I invite Prime Minister Kaifu to speak about Asia. (U)

Prime Minister Kaifu: Let me explain how Japan views Asia. The South Koreans asked me to inform the Summit about the sincere efforts of that nation. In Asia, there are fears that interest in the region is slackening in comparison with other parts of the world. Asia has special problems. Japan has had problems with Korea because of the war and before. But we are working on improving our relations. We hope that Korea will be reunited before the end of the century. The Koreans want this, too. (U)

Cambodian leaders asked me to host a meeting in Tokyo on Cambodia. The talks were successful, but the Khmer Rouge did not participate. I hope they will do so later. Regarding southwest Asia, I appeal to potential belligerents for peace in Kashmir. The South Asian Regional Council should be more open. (U)

(Problem with translation.)

The President: Let me briefly mention the discussion between Gorbachev and the Koreans. Gorbachev wants to improve his relationship with South Korea. Korea was happy with the meeting. On the other hand, the North Koreans have not cut back on their armed forces. We are there in a peacekeeping role, encouraged by Soviet behavior regarding Korea. (U)

Prime Minister Andreotti: I would like to ask Prime Minister Kaifu whether Soviet discussions with South Korea for a large loan are conditional on legal and diplomatic recognition of South Korea. (P)

Prime Minister Kaifu: President Woo wants to establish relations with the Soviets. The Soviets have said this might take some time, but are not moving in this direction. The Soviets have said so in public. Diplomatic recognition is likely at some point, but I don't know if there was a financial sweetener in the package. The head of Laos came to Tokyo recently. Things are looking up in Burma and the Philippines. (P)

President Mitterrand: A word about Cambodia. France has co-chairmanship of the group trying to find a solution to the Cambodian war. If the USSR and China were to decide to stop their support for both camps, we would have reached a settlement long ago. The question is how to put pressure on Soviets and China at the same time to stop their assistance to various factions and let peace come. (P)

The Khmer Rouge have denounced the possibility of an agreement arranged in Tokyo. Sihanouk has said that he would not agree to a solution unless he is part of the next government. So we are stuck on that front. The Soviet Union and China hold the keys to peace in Cambodia. They are waging a proxy war in Cambodia. China is the main culprit, helping the Khmer Rouge. It used to be the USSR that was the main problem, but now it is China. How do we put pressure on China? (P)

The President: I believe we should adjourn now. (U)

-- End of Conversation --