## B. The 1984 London Summit

Since Japanese economic growth continued to be primarily led by the expansion of its export volume throughout 1983, Japanese trade disputes with its summit partners, largely untouched at Williamsburg, subsequently worsened. In August, an OECD report warned that protectionist VERs would be enacted if Japan did not increase its imports of manufactured goods. For the purpose of solving these problems, the representatives of the EC, US, Canada and Japan convened at a quadrilateral trade meeting in Ottawa in September and decided to implement in 1984 the tariff reductions scheduled for 1985 if each country's real growth in GNP surpassed 2%. The same formula would apply to 1984 economic performance. Tokyo made public comprehensive economic measures which would lower the tariffs on 1,200 mineral and manufactured products agreed to in the conclusion of the GATT Tokyo Round by 5-6% effective in April 1984. This package was accompanied by another Japanese market-opening policy directed at easing its trade surplus with the EC. Tokyo also agreed to extend its VERs on auto sales to the US for 1984 on November 1, and its VERs on ten items (including video tape recorders) to the EC for 1984 on November 18. The dissatisfaction of the US and the EC was not easily controlled. The US started to vie for shares of Japanese financial markets with the President's visit to Japan in November. The EC resorted to protectionist measures by raising its tariff on imported compact disk players from Japan and other states.

The legitimacy given to concerted currency market intervention was tested in July. 216 The Williamsburg accord to "undertake coordinated intervention in exchange markets in instances where it is agreed that such intervention would be helpful" was put into practice. The major summit participants jointly intervened in money markets to purchase the yen and mark for ten days beginning July 29 with a view to soothing anxiety about US interest rate hikes and the strong dollar. This action, however, was not very fruitful in checking the dollar's appreciation vis-à-vis the yen. The dollar ranged between 246 yen to 232 yen for the rest of 1983, falling short of the expectations of the Japanese monetary authorities.

Reagan's visit to Japan in November was an opportunity to cement the "Ron-Yasu" relationship formed at Williamsburg. The lingering trade squabbles were prevented from exploding thanks to robust economic growth in the US. The conviction held by some in Washington that cheap imports assisted by the strong dollar helped keep inflation down, and Nakasone's apparent good intentions, symbolized by measures to liberalize and raise Japanese imports prior to the President's trip also helped. His visit signalled a shift in US attention from "visible" Japanese markets to "invisible" ones. The Reagan Administration prodded Tokyo to internationalize the Japanese yen and deregulate Japanese financial and capital markets. The yen-dollar issue was taken up because the depreciation of the yen against the dollar was considered to be caused by depressed demand for the yen thanks to closed Japanese capital markets as well as high US interest rates. The eight measures concluded were the first substantive steps to open Japanese financial and capital markets. Included in these measures were greater access for foreigners to Japanese markets, the enhanced role of the yen as a convertible international currency and an agreement to set up an ad hoc group on the yen-dollar problem.

Prior to the London II summit, the report published by the Japan-US Yen-Dollar Committee was approved as official Japanese policy. Thus, the special US-Japan financial relationship was codified by this agreement, which aimed at further liberalization of Japanese financial and capital markets. The accord was a key element in the Reagan regime's policies toward Japan and for managing American financial deficits. Washington believed that the comparative advantage enjoyed by the American financial services sector would help recover the economic balance with Japan. It was also supposed that the greater use of the yen would result in the yen's appreciation making Japanese products less attractive abroad and thereby decreasing trade deficits. This would have a consequent impact on Japanese financial practices and accelerate Tokyo's emergence as a major financial centre along with London and New York. By internationalizing the yen as well as Japanese capital and financial markets, this agreement actually made Japan shoulder some of the burden of the adjustment needed for supplementing declining American economic strength. Moreover, the announcement was very timely. Indicating a Japanese willingness to relax heretofore tight control of its capital and financial activities helped to make the London summit productive.

In addition to the comprehensive program to open up Japan's capital and financial markets, the Nakasone government again announced a new trade liberalization package just six weeks prior to the London summit. This Japanese move was clearly made in reaction to specific foreign pressures and in anticipation of the summit. announcement contained such Japanese concessions as the commitments to deregulate the telecommunications market without prejudice to foreign films, to relax rules concerning purchases by private Japanese companies of foreign communications satellites and to set up a new office to provide investment services. By now it was apparent that Nakasone's remark about Japan's sustained economic growth led by domestic demand expansion would prove false. Japanese economic growth of 3.9% in 1983 was pulled by the accelerated revival of the American economy. The side effect of this export-driven growth was ever-growing Japanese trade and current-account surpluses. This was accompanied by trade conflicts and protectionist pressures. The Japanese trade and current account surpluses for 1983 registered \$31.5 billion and \$20.8 billion respectively, and did not appear to be dropping throughout the first quarter of 1984. Japan had an \$18.1 billion trade imbalance with the US. While Japanese imports of EC products were growing in early 1984, the same could not be said about US exports to Japan. In view of these record-breaking figures, it was not surprising that the trade liberalization program in April did not meet American expectations. A USTR official, though appreciating some portions of the package, characterized the tariff reductions as "too little, too late". Citing competitive US forest products, whose access to the Japanese market was impeded by selectively high tariffs, he insisted that certain agricultural products like grapefruit be listed on the list of tariff cuts. Thus, US-Japanese trade friction was somewhat dissipated by the two packages prior to the summit, but they remained only quick fixes and not a panacea.

Another consensus born out of the Reagan-Nakasone summit was the need to go on the offensive in fighting protectionism. Nakasone proposed the idea of a new round of multilateral trade talks as a follow-up to the Tokyo Round, and obtained Reagan's basic consent. The new round of MTNs was supposed to be directed at relaxing protectionism in the trade in services, high technology and agricultural products. Since November, the Japanese government had made some serious diplomatic efforts. It took the initiative at the ministerial meeting of the OECD in May in seeking majority support for the trade round proposal, breaking the practice of Japanese diplomatic passivity. The proposal suggested that preparations for the round begin in 1985 with negotiations

commencing in 1986. The Japanese also advocated assistance in solving the accumulated debt problems in the Third World by lowering interest rates and promoting direct foreign investment in such a way that the investment would not augment debt burdens. The delegate then put forward an idea of holding an international conference on high technology and economic adjustment. This proposal was welcomed by Sweden, the US, Canada and France. Although the Japanese wish to insert an exact date for preparations for the new round in the OECD joint communiqué, this was not conceded thanks to the unwillingness of the EC (except Germany) and the US. A de facto green light was given to the concept of a new round of MTNs. Without Japan's strenuous behind-the-scene efforts, no reference to the negotiations might have been made in the communiqué. However, adjustment of the conflict of interests on the issue was required. Now, gaining approval for a new round from the summiteers became a major target for Japanese summit diplomacy at London.

Politically the Nakasone regime was more unstable than at the previous summit. The 1983 December general elections of the lower House reduced LDP seats from 284 to 250. The result was interpreted as a harsh judgement handed down by the electorate on the Nakasone Administration whose political base was backed and influenced by Tanaka, (found guilty in the first Lockheed scandal verdict). Failing to secure a solid majority (270 seats), the second Nakasone regime included 9 independent conservatives in the LDP and formed a coalition cabinet with the 8-member NLC. Nakasone's debilitated political position was translated in to his consultations with the opposition leaders for the upcoming London summit. Expecting the LDP presidential election in the fall, Nakasone was bent on an accommodative approach to the opposition forces for the sake of a smooth conclusion to the pre-summit preparations. The opposition leaders agreed on the idea of including the "political" aspect in the "economic" summit. They called on Nakasone to make the summit a place for communication and cooperation, unlike the previous one which exacerbated the US-Soviet split and East-West tensions. They also wanted Japan to play a constructive role in advancing the resumption of the INF/START talks and in mediating in the Iran-Iraq War. The opposition leaders also pressured Nakasone to request that Washington ameliorate its high interest rates and growing budget deficit. A push for the start of a new round of MTNs and the strengthening of the free trade system was agreed to by the government and the opposition. In response to these demands, Nakasone put special emphasis on the importance of communication and cooperation between the East and West for disarmament, as well as recognition of such values as liberty and democracy. He also reiterated his favorite theme of noninflationary economic expansion and the hope of a transfer of the benefits of economic growth to the Third World through a solution to the accumulated debt problem. As for the possibility of an oil shortage stemming from the Iran-Iraq War, he favored making use of an oil pooling system. It was apparent that the Prime Minister finetuned his attitude toward the summit to reflect some of the opposition's and the LDP leader's requests. For instance, he articulated dovish points of view like peace and disarmament more than his cherished and former stance of "peace-through-strength". Also, there persisted a lingering debate over macroeconomic management. The strength of the expansionist forces in Japan had improved over the previous year. If only sufficient external pressures arose at London to call for Japan to reflate its economy, they realize their hope of reviving a "locomotive" fiscal expansion. In some circles in Japan, this "locomotive" role resurrected by the foreign powers would be a desired dream.

The improved economic situation in the summit countries was a good sign for a more harmonized, less conflict-ridden summit at London.<sup>221</sup> The OECD projected 4.1% average economic growth for its members in 1984, up from 2.2% in 1983. The US,

Canada, and Japan were expected to attain a 4-5% GNP increase while the UK and West Germany would follow them with more than 2.5% growth. With the exceptions of Italy and France, the CPI was estimated to be below 5.0%. The problem which still existed was the high unemployment rate of, on average, 9.75% among the six summit nations outside Japan. The current account imbalances, especially between the surplus nation Japan and the deficit nation the US, was another cause of uneasiness. In contrast to these improved economic prospects, the world political situation was going through the turbulence caused by the Iran-Iraq war and worsening East-West tensions. This was further exacerbated by the interruption of the disarmament talks after the Western deployment of the Euromissiles, as recommended at Williamsburg.

With these economic and political developments as a backdrop, the pre-summit process ended with a bilateral meeting to straighten out differences. The US-Japan coalition was reestablished first. The Japanese Prime Minister won Reagan's support for the Japanese timetable for start of negotiations for a new round of MTNs. The two leaders also agreed to intensify efforts to come up with emergency measures in the event of a cut in the oil supply as a result of the Iran-Iraq war. One idea motioned by Reagan on the issue and subsequently seconded by Nakasone was the joint release of stockpiled oil to markets if an oil supply shortage emerged. Referring to the recent Quito Declaration of Latin American nations and his visits to Pakistan and India, the Japanese head stressed the need for the summit nations to facilitate goodwill with the Third World. Maintaining a dialogue and collaborating with non-aligned, neutral states was important, he added. Reagan agreed but urged the developing countries to put their own houses in Calling Reagan's visit to Peking a great success, Nakasone expressed his view that China would be a cornerstone for stabilization on the Korean Peninsula. Rapport notwithstanding, no attempt was made to resolve pending bilateral squabbles. Both resorted to glossing over differences on the vital issues. Unlike other leaders, the Japanese politicians did not bring up the thorny problem of high US interest rates and budget deficit. The American leader hailed a Japanese liberalization package to open up capital and financial markets, and assigned the task of prodding Japan to further ease tariffs on timber products to his Secretary of State George Schultz. meeting and other moves, the largest objective of Japan at London - consensus on the timetable for a new MTN round - seemed to be gaining ground. Canada endorsed the Japanese position; West Germany supported it; and the UK was switching its neutral stand to a more supportive attitude. The success of including this proposal in the declaration now hinged on the Italians and the French.

The economic revival of the summit countries contributed to a harmonization of the economic interests of the participants. However, the politicization of the economic summit persisted. All leaders consented to included in the London declaration a statement declaring respect for freedom and democratic values. Nakasone insisted that the declaration should be universal in calling for global dialogue. Reagan threw his support behind "Yasu", but some Europeans resisted. Despite their arguments, a rather abstract tone dominated the declaration, which did include a number of Japanese preferences. The assertiveness of the Japanese Prime Minister led to the inclusion of a phrase, inspired by the Japanese Peace Constitution, on abrogating the use of force. The declaration pronounced that "[e]ach of us rejects the use of force as a means of settling disputes." It also acknowledged the importance of "dialogue and negotiation" as the summiteers were "convinced that international problems and conflicts can and must be resolved through reasoned dialogue and negotiation." The participants' belief in "the need for peace with freedom and justice" was consistent with the Japanese position and "respect" for "genuine non-alignment" was expressed as Japan had wished. It seems

that the necessity to use the least common denominator of the political foundations of each country for the declaration on democratic values helped incorporate these Japanese perspectives. To the relief of Nakasone, the declaration on East-West relations and arms control downplayed the confrontational attitude expressed at Williamsburg and instead stressed the West's readiness for dialogue. The outcome mirrored the practical and international circumstances of that time. On June 4, Reagan had substantially softened his hardline rhetoric with his Dublin speech, appealing to the USSR for the resumption of disarmament talks. He also indicated a readiness to respond favorably to a Soviet-proposed treaty on the mutual non-use of military force. Although a few days later, his oratory had returned to a harsher description of the Soviet Union, Reagan agreed at the London summit to the communiqué line stressing more harmonious East-West relations, along the lines of the Dublin speech. Mitterrand wanted the declaration to be abstract without containing any concrete proposals. He hoped to pay a visit to Moscow soon after the meeting at London without being restrained by the summit declaration. The declaration was clearly more conciliatory to the Soviet bloc than the previous one. It exhibited the Seven's determination to "pursue the search for extended political dialogue and cooperation with the Soviet Union and her allies." It further made clear that each summit nation would "pursue all useful opportunities for dialogue" so that the summit's objective of "security and the lowest possible level of forces" would be attained by "early and positive results in the various arms control negotiations and the speedy resumption of those now suspended." After the summit, Nakasone claimed that he could play a central role in the issue of peace and disarmament by obtaining a consensus on the importance of the "dialogue" with Moscow.

The "political" nature of the London summit was also demonstrated by the publishing of a declaration on international terrorism and the Chairman's statement on the Iran-Iraq conflict. 224 The former was forcefully requested by the host country in the wake of the Libyan incident in England. France and Italy were not keen on issuing the declaration. Italy was particularly reserved because it had a cordial relationship with Japan was cautious about the treatment of diplomatic immunity and unenthusiastic about revising the Vienna Convention on Diplomatic Relations. A compromise solution was found in acknowledging "the inviolability of diplomatic missions and other requirements of international law," on the one hand, and underscoring "the obligations which that law also entails", on the other hand. The statement on the Gulf War brought no Japanese objection as it indeed wished to see a halt to fighting as much as any other member did. In fact, Japan with an enormous economic stake in the region, had tried to mediate between the warring oil-producers, to little avail. Its stake in the settlement of the conflict compelled the Japanese Foreign Minister to ask for the deletion of anti-Iran expressions contained in the first draft. The Japanese request was accepted. The Chairman's statement was neutral on the war, but lacked any concrete proposals to actually stop it. The related issue taken up by the Reagan-Nakasone presession meeting - the contingency plan of sharing oil reserves and the releasing of stockpiled oil to markets - was not specified in the declaration. The declaration promised the maintenance of "adequate supplies" of oil "for a substantial period of time by international cooperation and mutually supportive action." But there was no direct mention of detailed concerted action to cope with a disruption of Gulf supplies of petroleum.

More significant for Japan was the ultimate failure of the participants to agree on a timetable for the new Japan-proposed MTN round. Arguing that now was the best time to push for the new round, due to the upsurge of the world economic recovery, Nakasone included tropical products, trade in services and high-tech industries among

the candidates for liberalization. Queried by Thatcher about the impact of introducing high technology to the labour market, the Japanese Prime Minister stated optimistically that frictional unemployment, caused by a temporary adjustment to the high-tech field, would be absorbed by the labour demand of new industries. Reagan took sides with Nakasone and suggested that preparations begin for the talks in 1985 with the actual MTN Round to be held in 1986. The Canadians expressed their support for this schedule as well. The EC Commissioner Thorn, however, cautioned against the idea and Craxi of Italy was afraid that the new round might dishearten developing countries. vehement opposition on setting the date came from the French participants. They were not against the concept of a new round of trade liberalization, but were reluctant to accelerate the process toward it. Implementation of the Tokyo Round agreement should take precedence over starting a new round. Since the major concern of the Third World countries was the financial problem, the summiteers' declaration on the new round would not help them. Consultation with these countries should precede any decision made at the summit. These were the reasons presented by the French delegate. Kohl and Thatcher, who had sounded affirmative about the talks, kept silent. Support by the US was lukewarm, and in the end, Japan backed down lest it should be perceived as too pushy. A preponderant Japanese economic presence in Europe as measured by the trade imbalance might also have held Japan back. Thus, no timetable was specified in the The summiteers consented to "reaffirm the agreement reached at the O.E.C.D. ministerial meeting in May 1984 on the important contribution which a new round of multilateral trade negotiations would make to strengthening the open multilateral trade system for the mutual benefit of all economies." Yet they decided only to "consult partners in the GATT with a view to decisions at an early date on the possible objectives, arrangements and timing for a new negotiating round." At least, support of the summit for the new round was noted in the declaration; the expression of the support was stronger in tone than that of the OECD meeting.

The American budget deficit and high interest rates were the principal macroeconomic issues. 226 By the time of the London summit, there emerged a common view among the six summit partners that high US interest rates caused by the bloated budget deficit were depriving other countries of options to lower their interest rates and were thus depressing their industrial activities. High US rates had also accelerated the indebtedness of developing nations. However, the six nations' criticisms of US macroeconomic mismanagement were counter-balanced by their own budget deficits and by the boom in the US economy. Actually Reagan did not recant on his economic policies. He vigorously justified Reaganomics by denying the correlation between the budget deficit and high interest rates. Citing his belief that tax cuts would expand savings and investment and ultimately would lead to increased employment, he stressed the need to control inflation as a key factor in future policy. Since US economic growth was the major cause of other countries' increased exports to the US, the American position was strengthened; the US could escape being singled out for a reduction of the budget deficits or a lowering of interest rates. The declaration noted that "[h]igh interest rates, and failure to reduce inflation further and dampen inflationary expectations, could put recovery at risk", and made public the agreement among the summit participants to "control and when necessary reduce budgetary Without a clear-cut international responsibility to reduce forcefully its deficits." budget deficit, however, the US would accumulate its deficits, causing various problems. Japan did not seem to press hard for the US to cut its spending, thus disappointing domestic opposition parties and some business leaders.

The summit's accord to maintain fiscal restraint by keeping public expenditures "within

the limits of what our national economics can afford" gave greater incentives to fiscal conservatives like the MOF and discouraged the hope to utilize "summit pressures" held by Japanese expansionists. The sentence that "[p]rudent monetary and budgetary policies of the kind that have brought us so far will have to be sustained and where necessary strengthened" was widely interpreted to legitimatize a continuation of fiscal reform in the Nakasone government. Stimulation of domestic demand through additional fiscal means was not popular at London. Spurred by this consensus, Finance Minister Takeshita declared that the "locomotive theory" was now commonly abandoned by the summit countries. Heralding the restrictive budgetary principle agreed at London as Japan's basic line, he argued that the JFY 1985 budget would inevitably lean towards further financial retrenchment. Actually, later events proved him right. The JFY 1985 budget would be an extremely austere one, in line with the principle of alleviating "the growing strain of public expenditure" recognized at London. The summit result appeared to help the fiscal-consolidation-minded MOF win over domestic pressure emanating from the fiscal-stimulus-oriented advocates within the government, the LDP, and opposition parties.

More emphasis was placed on North-South issues than in previous summit documents.228 For example, reflecting the \$820 million owed by developing countries, the declaration attached particular importance to "encouraging more extended multi-year rescheduling of commercial debts and standing ready to negotiate similarly in respect of debts to governments and government agencies" if the debtor countries' efforts were successful. Thus, an attempt was made to deal with the accumulated debt problem by giving the debtors more time to pay back their loans if they took some steps to cut spending and manage their economies properly. Subsequently Japan agreed to examine rescheduling of some debts in concert with the IMF and the World Bank. But, the prescriptions at London for North-South problems were long on abstract principles and short on effective specifics. Nakasone's call for "encouraging the flow of long-term investment" to the Third World was incorporated into the declaration. Moreover, his favorite term, "a spirit of goodwill and cooperation", was employed to depict the reconfirmation of the Seven's "willingness to conduct [their] relations with developing countries." In spite of these affirmations. London failed to answer a few crucial questions. The "Common Fund" project launched at the 1978 Bonn summit was only touched upon as "some" of the summiteers "wished to activate the common fund for commodities." For those who had not ratified the proposal, the summit declaration did not prod them into a more positive stance. The International Development Association (IDA) had been contemplated prior to the meeting as an appropriate way to assist the poor nations in reconstructing However, the summit communique was inconclusive on this point. their economies. The French asked the Germans and Japanese to compensate for the lack of funds due to a decrease in the American contribution. Both declined, asserting that more American funds would be a prerequisite for their additional contributions. Considering the fact that Japanese ODA was unlikely to double by 1985 as Japan had pledged at the 1981 Ottawa summit, Japan's words and deeds on the North-South problems at London appeared not to be very reliable.

Nakasone and his government praised the achievements of London, hailed the peace-oriented tone of the declaration, and observed the growing Japanese voice at the summit. Nobody in his LDP slammed Nakasone's performance, but the opposition politicians and a number of Zaikai chiefs offered different assessments. The solution presented by London to the North-South problem did not live up to the expectations of the JSP, while the Komeito gave poor marks to the steps taken with respect to the accumulated debt problem. All major opposition parties except the DSP regretted the

lack of a US pledge to lower its high interest rates. They were also dissatisfied with the absence of any specific means to improve East-West relations. The DSP rated the general summit result most positively; unlike the JCP, it thought quite highly of the declaration on democratic values and the phrases on the East-West issue. Komeito thought that the agreement for a new round of MTNs deserved credit. Zaikai formally gave its usual favorable comment since its favorite theme of non-inflationary economic growth was reconfirmed at London. Zaikai leaders welcomed the paragraphs on East-West relations and found that a phrase on the new trade round was a great step forward. Privately, however, some of them disclosed their frustrations about economic summitry increasingly becoming a "political show" with no praiseworthy result to cure such economic ills as inflation and a cut in the US budget deficit. As the summit became embedded in the Japanese calendar, part of the business community became more glib about summitry. Both Zaikai and some opposition parties did not seem to favour very "political" summitry that neglected to tackle pressing economic issues.

The London summit recaptured the overall editorial support lost at the Williamsburg summit. 230 More similarities could be found in the various editorials on the London summit than those on the previous one. However, both the Nihon Keizai and Asahi cautioned against the possible repercussions brought about by Nakasone's overtly close alliance with the US in preference to the Europeans. The manner in which the summit settled the question of a new GATT round was accepted by the Asahi, Yomiuri and Mainichi. Even the Nihon Keizai did not grumble about it. The Mainichi was the most critical in its overall assessment of the declarations. It shared its displeasure with the Asahi about the poor progress made at London in specifically alleviating economic troubles, and suggested better international macroeconomic policy coordination, in general, and a Japanese increase of domestic demand and direct foreign investment, in particular. It also concurred with the Asahi and Yomiuri on the necessity to cut the US budget deficit. The Yomiuri was the most enthusiastic about the summit results; it lauded almost all the main agreements at London, although it did not forget to add a statement on the importance of implementing the agreed items.

The domestic reaction to the London summit contained no vociferous outcry about the Prime Minister's performance, as was the case at the summit in the US. A peaceful summit with no repugnant phraseology included in the declaration prevented the Nakasone regime's from garnering domestic fire. Nakasone managed to clear an obstacle to his reelection for the LDP leadership. More importantly for Tokyo, the Japanese nightmare of coming under fire from all the other summiteers for trade policies did not come true at London. Alleviation of the major trade wrangles with the summit partners and two packages of market-opening measures helped offset growing grievances about Japan's massive trade surpluses. As at Williamsburg, Nakasone teamed up with Reagan to arrest any confrontational attitudes adopted by other summiteers. Consequently, his stance on high American interest rates and budgetary shortfalls was less harsh than that of the Europeans. The paramount concern for Japan - fixing a timetable for the new trade liberation round - was aborted despite the pre-summit groundwork to garner support for it. The tacit understanding at the summit that a decision would be made by unanimous vote blocked the Japanese. The Germans and British wavered during the negotiating process. The Americans became less insistent. In the end, French-Italian resistance prevailed. Japanese trade vulnerability as perceived by Japanese policymakers also undermined their bargaining strength. However, the macroeconomic conclusion that reconfirmed fiscal and budgetary restraint was a great boon to the conservative MOF officials in Japan. Nakasone's cherished fiscal and administrative reform came out further enhanced from the London summit. The "locomotive theory" was not yet