THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telecon with Ryutaro Hashimoto, Prime Minister of Japan (U)

PARTICIPANTS: Ryutaro Hashimoto, Prime Minister

Interpreter: Paul Hersey

Notetaker: Lyle Harrison, Jeffrey Rathke, Marianna Papadimitriou, Robert Ford, Jim Smith, Ralph Sigler, Ed Rice

DATE, TIME AND PLACE: January 12, 1998, 8:24 - 8:50 p.m. EST Residence

The President: Hello, Ryu? (U)

Prime Minister Hashimoto: Yes, this is Ryu. How are you Bill? (U)

The President: I am doing great, and it is nice to hear your voice. I thought it would be useful to stay in close touch as we go through this financial turbulence. ~~(C)~~

Prime Minister Hashimoto: Thank you for your phone call. I talked to President Soeharto for quite a lengthy time. Although Soeharto reassured me he had talked to the Deputy Managing Director of the IMF, Mr. Fischer and told him that he would abide by the IMF agreement, I am not sure he appreciates the depth or seriousness of the problem. After more than 14 minutes of phone conversation, I repeatedly told Soeharto that he should only say that Indonesia would abide by the IMF agreements and not mention extra things. At the end of the conversation, he told me he appreciated my advice. So I think that the Camdessus meeting will be important. I would like to ask you to have Summers emphasize this point of compliance with the IMF, so Soeharto does not add other details or subjects. I cannot lie about my impression that other details about compliance with the IMF may not be fully briefed to the president. After Tony Blair

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and European Commission President Santer were in Japan last night, I asked for their cooperation to persuade President Soeharto. ~~(C)~~

The President: Well, first of all, it sounds like you had a good phone call with him, like the one I had with him. I assure you Larry Summers will convey the same message. There are some signs of improvement in the investor community. I wanted to talk a little about the way things are going in Japan. The turbulence in the rest of Asia really puts a big responsibility on you in helping to restore confidence in the whole region and makes it more difficult for you, but coincides with your goal of domestic demand-led growth. Your tax proposal was an important first step in the right direction, but the IMF analysis and that of our own experts suggests that even after the proposed tax cuts, your fiscal policy is set to contract again next year and additional stimulus is necessary to offset the contraction in fiscal policy. ~~(C)~~

I know that is really difficult because of your previous course, but additional fiscal stimulus will bolster domestic demand and market confidence. The deteriorating situation in Asia and continuing weakness in the Japanese banking system give you a reason to do something more. I am very concerned that a prolonged slowdown and deeper crisis in Japan will do greater damage to your long-term fiscal consolidation goals than any temporary stimulus to promote growth. It appears that your opposition is more divided and weaker than a few weeks ago, and that some might even support greater efforts. I also wanted to ask you what your thinking was on this, in light of the continued turmoil in other Asian countries. ~~(C)~~

Prime Minister Hashimoto: I have to point out that the opposition members are not thinking about the situation as a whole, but only from the perspective of getting back into government and not on the economic future of Asia. Yesterday I made a speech on my fiscal measures and measures to stabilize the financial situation and today there will be questions from opposition members demanding an explanation for the differences between my current and previous positions. The opposition is not asking future-oriented questions. The questions have only one thing in common, and that is: if I resign the Japanese economy will get better. ~~(C)~~

The President: I don't believe that. (U)

PRIME MINSTER HASHIMOTO: I would like to point out that the message conveyed to Deputy Chief Cabinet Secretary Nukaga by Deputy Secretary Summers and others in the American government has been conveyed to me in a very accurate manner. We do appreciate all the advice about fiscal, financial and tax measures, but having said that I do fully appreciate American concerns, I have to ask you to please keep quiet and view this in a calm manner, because we now have to go through the process of having the Diet approve what we have already decided to do. There are different views in the Diet, some party members say that, since the U.S. government is interested in it, then we should do it. At the same time, there are others who feel very uncomfortable and resist because the Americans are demanding it. For us to carry out the text that I announced earlier in December we have to answer all those questions and persuade those parliamentarians that those measures are necessary. I always appreciate our consultations and your advice, but since we just began the parliamentary session, we need time to go through the process of explaining what we already promised to do. In this context, we are concerned that a drive to increase imports might lead to an increase of the yen. If this happens we cannot have any progress in the Diet. ~~(C)~~

The President: I understand that. My only real concern is that the situation in Asia is increasingly unstable and events may overtake what you are trying to do. I am just concerned whether we have enough time to do what needs to be done. I also wanted to say a word about the financial stabilization efforts you are making. I think the announcement of substantial public money was a very constructive step and the market responded most favorably when you indicated that you would let the bad institutions fail and the bad managers take responsibility for bad decisions, but depositors would be protected. I know these issues are difficult for you, but you have played a very constructive role in addressing Asia's financial challenges, and I want to be supportive of your difficult decisions. I just don't want events to overwhelm all that you're trying to do. ~~(C)~~

Prime Minister Hashimoto: With all the questions surrounding Asia as a whole, it is only natural for me to continue to pay close attention to developments in the region and this is why I am in the closest consultation with you and President Soeharto. Now I would like to address this situation. I would like to concentrate on approval for a special tax cut of two trillion yen in February, so I can bring this about. At the same time, with infusion of public funds of 30 trillion yen by the year

2001, depositors will be protected in full. The offending financial institutions will fail and the performing banks will be able to expand their base as well. I will take full note of your advice that there should be transparency in this process. I recognize its importance and will do my best. I would like to create an environment so that I can begin the tax cuts in corporate, land and security transactions taxes this April. I would like to appropriate a portion of the budget for this fiscal year already submitted to the Diet, which includes public works expenditures of 2.5 trillion yen. So I will appreciate your full support for my efforts. But the opposition in the Japanese Diet and some quarters in the media as well think that the best fiscal policy at this moment is to fire me, and they would not tell me who my successor would be. ~~(C)~~

The President: You can't quit, you have to stay and fight. ~~(C)~~

Prime Minister Hashimoto: Thank you. On the Japanese situation or the situation in Indonesia I believe that it is important to talk to you and I will certainly do that. Please give my regards to Hillary as well. ~~(C)~~

The President: I will. We have to stay in close touch. We can't let this get out of hand. I worry about it spinning out of control on us. ~~(C)~~

Prime Minister Hashimoto: Thank you. (U)

The President: Goodbye, Ryu. (U)

Prime Minister Hashimoto: Bill, thanks. Bye. (U)

-- End of Conversation --