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PREM 19/1556

PART 2

MT

633

SECRET

CONFIDENTIAL Fair

Miss Out to Japan:
September 1982: Policy

JAPAN

PART 1 July 1982

PART 2 September

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
30-9-82							
4-10-82							
13-10-82							
10-11-82							
15-11-82							
7-1-83							
13-6-83							
21-6-84							
9-7-84							
26-7-84							
23-10-84							
2-11-84							
29-3-85							
12-4-85							
16/4/85							
PART CLOSED							

PREM 19/1556

PART 2. ends:-

MEA to F. Kennedy

16 April 1985.

PART 3. begins:-

Sir James Spicer to Con. Party

Chairman 27/4/89

Cabinet / Cabinet Committee Documents

[illegible]

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB (CABINET OFFICE) CLASSES**

Signed J. Gray

Date 20/2/2014

PREM Records Team



file

SS

10 DOWNING STREET

From the Private Secretary

16 April 1985

I enclose a letter to Mr David Miller, from the Prime Minister. I think you know that the Department of Trade and Industry suggested that the right way to despatch this to Mr Miller was through your office.

I should therefore be very grateful if you would ensure the letter is passed to Mr Miller.

MARK ADDISON

F Kennedy, Esq CBE

SS



10 DOWNING STREET

THE PRIME MINISTER

15 April 1985

Dear Mr. Miller

I am very glad to send best wishes from Britain to J C Penney. The "Best of Britain" event provides one of the biggest and most important platforms ever for the display of British consumer goods.

In 1983 the J C Penney buyers came to the United Kingdom and looked at our fashion industry. They met our young designers and saw for themselves the attention our manufacturers give to quality and their concern for value. That led to this exciting initiative. Now, with our support, you are going to launch the "Best of Britain" throughout the United States in J C Penney stores.

For three weeks your staff will be ambassadors for Britain and its way of life. Through them, many more people will get to know more about our country, its new fashions and products. That is why I am especially happy to encourage this important international marketing event. I wish "Best of Britain" the very best of British luck.

Yours sincerely

Margaret Thatcher

Mr David Miller

PRIME MINISTER

J C PENNEY: BRITISH PROMOTION

You may remember writing last July to Mr Pegna, Managing Director of Portman Ltd, expressing your support for the campaign J C Penney were proposing later this year in their American stores to promote British goods. (Portman is Penney's UK buying house.) Your letter explained that some, limited, support would be available from BOTB.

J C Penney have asked if you would agree to send a message they could use in their campaign. The DTI think this would be an excellent idea, and our press office are happy.

DTI think the message could best take the form of a letter to Mr Miller, President of Penney. A draft is attached for your signature.

Mark Addison

MARK ADDISON

12 April 1985



10 DOWNING STREET

From the Private Secretary

12 April 1985

The Prime Minister has asked me to thank you for your letter of 3 April. She was grateful that you took the trouble to write and was particularly interested in hearing about what your company has been able to achieve in the North East.

The Prime Minister is certainly aware of the "Best of British" promotion which J C Penney are launching in the United States. It has her full support and she is in fact sending a personal message to the President of J C Penney which she hopes will be helpful.

The Prime Minister has asked me to send a copy of your letter to Tom King, because she knows he will be interested in the points you make about training.

MARK ADDISON

Albert J Dewhirst Esq

✓



I. J. DEWHIRST HOLDINGS p.l.c.

DIRECTORS:

ALISTAIR J. DEWHIRST
CHAIRMAN & CHIEF EXECUTIVE
JAMES A. R. DEWHIRST
VICE CHAIRMAN
THOMAS EDGE
JOINT MANAGING DIRECTOR
IAN R. DEWHIRST, B. TECH.
JOINT MANAGING DIRECTOR
TIMOTHY C. DEWHIRST
JOINT MANAGING DIRECTOR
SCOTT S. BEATTIE, LL.B., C.A.
H. ANTONY VICE, M.A.

Clothing Manufacturers

C.M.

1st let we have now replied

to him. Mkt 15/4

REGISTERED OFFICE:

DUWEAR HOUSE
WESTGATE
DRIFFIELD
NORTH HUMBERSIDE
YO25 7TH
TELEPHONE: 0377 42561
TELEX: 527530
REG. NO 1063766 ENGLAND

3rd April 1985

Below

OK /cf

*Could we get up paper pl
on the J.C. Penney promotion /idea
convergence. CDP was dealing. Mkt 9/4*

The Prime Minister,
10 Downing Street,
LONDON

Dear Prime Minister,

One of our Joint Managing Directors, Tom Edge was privileged to attend number 10 Downing Street, on Tuesday, 26th March 1985, on the occasion of the visit of Mr. Kilroy-Silk, M.P., and 25 young people from Merseyside.

On his return he expressed to me his admiration for the way you received all the young people and gave them the opportunity to state their case, and appreciated very much your letter to him.

We are however concerned about the press comments and demands for us as a company to provide employment in the Merseyside area. Tom Edge attended the meeting as Chairman of the Training and Research Committee of the Clothing and Allied Training Board more than as a representative of this company. Our area of operations is in the North East of England going North from Hull to Blyth in Northumberland and to open a factory in Merseyside would be stretching our communications and our management control. In any case, our operations in the North East of England are in areas of high unemployment. Our record as a company in providing employment in these areas is I believe impressive, and we are expecting to provide a further 600 new jobs in 1985. I believe The Rt. Hon. Norman Tebbit, M.P. is aware of our developments in the North East and we have received considerable support from Lord Sieff through Marks and Spencer p.l.c..

As a matter of interest our employment record for the past 4 years is as follows:-

1982	-	2,150
1983	-	2,580
1984	-	3,020
1985	-	3,540 to April 1985

Also, since YTS has been introduced, we have been offered 979 places of which 724 places have been taken up. Of this figure 582 have been taken onto our permanent staff after the YTS training. In addition, we will have trained ourselves and engaged over 1,500 people in the last 3 years.

Continued.....

From this you will see that as well as providing an additional 600 places in 1985 we will also be providing a further 300 places to cover normal labour turnover.

The reason for the increases in our staff is that we are creating new business for ourselves and going out into the market places in the UK and selling our production on the basis of quality, value and delivery. Also, we have created a strong export business with J. C. Penney in the USA, which is providing 300 extra jobs within the total jobs available.

J. C. Penney are launching a "Best of British" promotion this Autumn in the States, which in our case represents a contract of over £3M., and we understand the total export business for this is in excess of £40M. for the UK as a whole. Any support that the Government is able to give this promotion of British goods in the USA would be greatly appreciated.

Finally, on the positive side, following your meeting, Tom Edge through the Training Board is arranging for all Clothing Manufacturers in the North West to be contacted and for a team from the Board to set up some adult training initiative which could help to overcome the 18 year olds not covered by YTS, and perhaps not part of the community programme. We as a company will give all possible support to ensure that things do happen following your meeting.

Yours sincerely,

Alistair J. Dewhirst

Alistair J. Dewhirst
Chairman & Chief Executive

*P.S. Would it please be possible for you
to do a short video for J.C. Penney
for the "Best of British" promotion.*

ATD



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

4 April 1985

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*GR - P.S. please
for review*

Dear Mark, ?

Further to my letter of 29 March, we have now been informed by the British Trade Development Office in New York that J C Penney have gratefully accepted the offer of a written message from the Prime Minister in connection with their major British promotion in October/November this year.

2 The suggestion is that the message takes the form of a letter to Mr David Miller, the President of J C Penney. The text proposed is a slightly amended version of that originally put forward for the video message. A draft is attached.

3 If the Prime Minister accepts this proposals, it would be helpful if the letter were dispatched through Mr F Kennedy CBE, Director-General of Trade Development in the United States, British Trade Development Office, New York, at the earliest convenient time.

Yours sincerely,

Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

JH2ALM

DRAFT TEXT OF MESSAGE FROM THE PRIME MINISTER

Mr David F Miller
President
J C Penney Company Inc
1301 Avenue of the Americas
New York
NY 10019

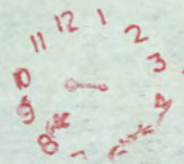
J C PENNEY - BRITISH PROMOTION

I am very glad to be able to send greetings from Britain to J C Penney. Your event, The Best of Britain, is one of the biggest and most important promotions in which we have been involved.

In 1983 the J C Penney buyers came to the United Kingdom and looked at our fashion industry. They met our young designers and saw for themselves the attention our manufacturers give to quality and their concern for value. That led to this exciting initiative. Now you, with our support, are going to launch 'The Best of Britain' throughout the US in the J C Penney stores.

For three weeks your staff will be ambassadors for Britain and its way of life. Through them, many more people will get to know more about our country, its new fashions and products. That is why we were especially happy to encourage this important international marketing event. We look forward to a continued and close friendship. I say, best of luck for The Best of Britain.

- 9 APR 1995





10 DOWNING STREET

Please circulate in
Private Office & to
Mr. Ingham, in
case it all goes
from J.C. Penney
under through while I
am away
ed.



JU169

Secretary of State for Trade and Industry

C.F. pps CCB1
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

29 March 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Charles,

Thank you for your letter of 14 March.

The news that it was not thought appropriate for the Prime Minister to send a personal message for the J C Penney British promotion, was passed to executives of the company at a routine meeting with officials from the British Trade Development Office, New York on Monday 18 March.

The Penney side were obviously disappointed and have indicated that they intend to initiate a direct approach to your office, via one of their senior corporate public relations executives, Mr Harvey McCormick, in an attempt to have the decision re-considered.

It seems unlikely, therefore, that Penney will be willing to turn their minds to the way in which a written message from the Prime Minister might be used to the best effect in connection with their press launch, until after they have made their own approach on the subject of the requested video message.

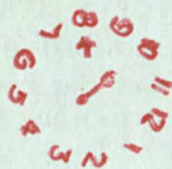
BOTB officials are keeping in touch with BTDO New York and when the picture is clearer, we will write again with a proposal for the text of a written message from the Prime Minister.

Yours sincerely,

Maureen Dodsworth

MAUREEN DODSWORTH
Private Secretary

JAPAN: In use R2



101 APR 1985

CONCURRENCE

These two are the subject of the report.

The report that is now being prepared by the committee is intended to be a summary of the work done by the committee in the past year. It is intended to be a summary of the work done by the committee in the past year. It is intended to be a summary of the work done by the committee in the past year.

The committee also has a number of other projects which are being carried out. These include a study of the effects of the new law on the economy, and a study of the effects of the new law on the environment. The committee also has a number of other projects which are being carried out.

It is hoped that the committee's work will be of great value to the government and the public. The committee is also very grateful for the support and assistance of the government and the public. The committee is also very grateful for the support and assistance of the government and the public.

The committee is also very grateful for the support and assistance of the government and the public. The committee is also very grateful for the support and assistance of the government and the public. The committee is also very grateful for the support and assistance of the government and the public.

J.C. PENNEY



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10 DOWNING STREET

From the Private Secretary

14 March 1985

You wrote to Mark Addison on 11 March supporting the suggestion that the Prime Minister might record a video message for J C Penney store promotion.

I have consulted Bernard Ingham and we both agree that it would not be appropriate for the Prime Minister to do this. She could, however, do a written message. I should be grateful for advice on the best form for this.

Charles Powell

Miss Maureen Dodsworth
Department of Trade and Industry.

ECL

Charles



10 DOWNING STREET

I agree with you.
A video tape for a
commercial
promotion - albeit

for British goods - is a leap.

I think it is one thing for me
PM to video a message & (other
the owners of British goods for a
trade fair. It is another thing
to do so for a commercial
organisation selling British
goods.

Bernard

What

do you think

of this? I'm not ^{What does it stop?}

sure I like the idea

of a video message ^{John}
from the PM to be

played in a store
promotion - the world

prefer to stick to a
written one. But am

I being ever FO
fuddy-duddy?!

CD



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

11 March 1985

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Mark,

Cherles.
It looks as if you have been
dealing with this. I should like a
written message would be preferable to
a video for use in stores. I will
deal it you with. M L A B/3

On 21 September last, Mr E W Pegna, Managing Director of Portman Ltd, wrote to the Prime Minister about a major promotion of British consumer goods, being planned by the US department store, J C Penney. Portman is the store's UK buying house. In his letter, Mr Pegna sought the Prime Minister's agreement to meet the President of J C Penney for a brief interview, which would be recorded on video tape for use as an introduction to the launch of the store's British promotion.

2 In your reply of 23 October to Mr Pegna you said that it would not be practicable for the Prime Minister to give an interview in the form suggested, but that she would wish to keep in mind the possibility of sending a personal message. This possibility would be given further consideration when the details of the promotion had been settled between Penney and the British Overseas Trade Board (BOTB).

3 Plans for the promotion, which is receiving financial support under the BOTB Store Promotions Scheme, are now well advanced. The emphasis will be on men's and women's apparel and will provide an important immediate and longer term opportunity for UK manufacturers of middle market ranges. Retail sales of \$50m are anticipated by the store (this would represent some \$25m of purchases for UK suppliers). It is possible that there will also be purchases in the giftware sector. The promotion will, in addition, feature British arts and cultural presentations. The store has allocated a promotional budget of \$4.6m for the event.

4 Against this background we believe that it would be appropriate for the Prime Minister, if she were willing, to send a short video taped message to J C Penney. The primary purpose would be to reinforce the enthusiasm for the promotion of Penney's 175,000 staff members. The video would also be available to be shown to the customers in each of the 400 stores, nationwide, taking part in

JH4AVJ



the promotion, and would be used in various press and other briefing events.

5 A draft text for the proposed message, prepared by BOTB in consultation with J C Penney, is attached. Also attached, is the text of a message from Mr David Miller, the President of Penney, which it is intended should be shown in conjunction with that of the Prime Minister.

6 If the Prime Minister agrees to provide a message, arrangements for the taping would be made by BOTB with the Central Office of Information. Current plans are that Penney will officially announce their promotion on 3 April. With this in mind we would hope to have the message taped sometime in early March.

Yours sincerely,

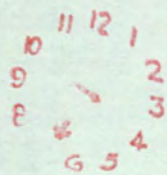
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

215-5422

JH4AVJ

12 MAR 1985



J C PENNEY - BRITISH PROMOTION

DRAFT TEXT OF MESSAGE FROM THE PRIME MINISTER

I am very glad to be able to send greetings from Britain to J C Penney. Your event, The Best of Britain, is one of the biggest and most important promotions in which we have been involved.

In 1983 the J C Penney buyers came to the United Kingdom and looked at our fashion industry. They met our young designers and saw for themselves the attention our manufacturers give to quality and their concern for value. That led to this exciting initiative. Now you, with our support, are going to launch 'The Best of Britain' throughout the US in the J C Penney stores.

For three weeks you will be ambassadors for Britain and its way of life. Through you, many more people will get to know more about our country, its new fashions and products. That is why we were especially happy to encourage ~~J C Penney~~ in this important international marketing event. We look forward to a continued and close friendship. I say, best of luck for The Best of Britain.

VIDEOTAPE SCRIPT FOR DAVID MILLER
JCPENNEY'S BEST OF BRITAIN

VIDEO

Best of Britain Logo
fills screen,
slow pull back to
reveal logo as part
of set.
Miller shot at waist.

AUDIO

MILLER:

WE ARE PLEASED THAT PRIME MINISTER
THATCHER SHARES OUR ENTHUSIASM FOR
THE PARTNERSHIP WE'VE CREATED WITH
THE BEST OF BRITAIN.

FROM OCTOBER 16 TO NOVEMBER 9th,
EXCITING NEW MERCHANDISE FROM
BRITAIN WILL BE AVAILABLE AT 400
JCPENNEY STORES THROUGHOUT THE
COUNTRY. LOCAL MARKETS ARE
DEVELOPING EVENTS THAT HIGHLIGHT
THE TRADITION WE SHARE WITH THE
UNITED KINGDOM. . . A TRADITION OF
QUALITY AND A CONCERN FOR VALUE.
THIS IS OUR SECOND MAJOR EVENT
THAT IS INTERNATIONAL SCOPE. IT'S
PART OF OUR MESSAGE TO OUR TARGET
CONSUMERS THAT JCPENNEY IS THE
NATIONAL DEPARTMENT TO SHOP FOR
FASHIONS.

IT WILL TAKE EVERYONE'S INVOLVEMENT
TO MAKE THIS PROGRAM THE SUCCESS
IT CAN BE. LET'S MAKE THE BEST OF
BRITAIN THE BEST FOR JCPENNEY IN
1985.

JAPAN Am Visit
~~File~~

Portman Limited

ASSOCIATED COMPANY OF SELFRIDGES LTD, LEWIS'S LTD.
AND OF MISS SELFRIDGE LTD.

P.O. Box 4BX, 4 GEE'S COURT
BARRETT STREET, LONDON W1A 4BX
Telephone: 01-493 8141 Telex: 263929
Cables & Telegrams: Selportex, London W1A 4BX

EWP:esm

2nd November, 1984

C.D. Powell, Esq.,
Private Secretary,
10 Downing Street,
LONDON.

NBPM
CDP
5/xi

Dear

Mr Powell

Thank you for your letter of the 23rd October.

I have passed on details of your letter to the President of the J.C. Penney Company, suggesting that we should advise through the BOTB in due course.

We are very grateful for the interest which the Prime Minister is showing in this matter.

*Yours sincerely
E.W. Pegna*

E.W. Pegna

AUSTRALIA John Martin & Co. Ltd., Adelaide
Boans Ltd., Perth, W.A.
G.P. Fitzgerald & Co. Ltd., Hobart
McDonnell & East Ltd., Brisbane
Venture Stores Ltd., Victoria
Hartley & Turner Pty. Ltd., Victoria

AUSTRIA Alpenlandkaufhaus Kastner & Ohler, Graz
A. Gerngross Kaufhaus GMBH, Vienna
A. Hermansky GMBH, Vienna
Warenhaus Steffl A.G., Vienna

BELGIUM
FINLAND
FRANCE
GERMANY
GREAT BRITAIN

HOLLAND
ICELAND
JAPAN
LUXEMBOURG

GB-Inno-Bm S.A., Brussels
Oy Pukeva, Helsinki
Au Printemps S.A., Paris
Karstadt A.G., Essen
Lewis's Limited, Liverpool
Selfridges Limited, London
Vroom & Dreesmann, Amsterdam
Hagkaup, Reykjavik
Takashimaya Co. Ltd., Tokyo
Grands Magasins Monopole S.A., Luxembourg

PAPUA NEW GUINEA
SPAIN
SWEDEN
SWITZERLAND

U.S.A.

Steamships Trading Co. Ltd., Port Moresby
Galerias Preciados S.A., Madrid
Ahlen & Holm A.B., Stockholm
Grands Magasins Jelmoli S.A., Zurich
Grands Magasins Innovation S.A., Lausanne
Au Grand Passage S.A., Geneva
Manor A.G., Basle
Haushalt A.G., Hochdorf
J.C. Penney Purchasing Corporation New York

DIRECTORS: G. Maitland Smith (Chairman) E. W. Pegna (Managing Director) R. N. H. Quinton R. N. Stephens

REGISTRATION: ENGLAND 419063

REGISTERED OFFICE: 40 DUKE STREET, LONDON W1A 4BX

Japan: PM's visit Pt 2

40252001
P.O. Box 400
BARRATT STREET, LONDON W1A 1XX
Telephone: 01-400 8141
Telex: 200010
Cable: 200010

Portman Limited

ASSOCIATED COMPANIES OF THE PORTMAN GROUP
AND THE PORTMAN GROUP



10 DOWNING STREET

From the Private Secretary

23 October 1984

Thank you for your letter dated 21 September about the proposed British promotion by the J.C. Penney company. The Prime Minister is delighted to hear that these plans are making good progress and welcomes the opportunity that the promotion will provide for demonstrating the quality and craftsmanship of British goods.

I am afraid that it would not be practicable for the Prime Minister to give an interview in the form you have suggested, but she would certainly wish to keep in mind the possibility of sending a personal message. The best way in which this might be done is for consideration when the details of the promotion have been settled between Penneys and the BOTB. I have asked the officials concerned to keep this office in touch.

C.D. Powell

E.W. Pegna, Esq.

✓



JU385

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

19 October 1984

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Charles,

J C PENNEY PROMOTION: LETTER FROM THE MANAGING DIRECTOR OF
PORTMAN LTD

You may recall that Mr Pegna of Portman Ltd wrote to the Prime Minister on 18 June (copy attached) drawing her attention to the particularly important promotion of British consumer goods planned by the US department store J C Penney, of which Portman is the London buying house. Mr Pegna's primary objective in writing was to seek the Prime Minister's assistance in persuading the British Overseas Trade Board (BOTB) to grant a significantly higher level of financial support for the proposed event, than was allowed under the Board's Overseas Store Promotions Scheme. The question of BOTB financial support has now been resolved at a level substantially lower than that requested by Portman and JC penny are committed to going ahead. Preliminary ideas for the promotion are now the subject of detailed discussions between Penney executives and BOTB officials, both in London and New York.

2 In his earlier letter Mr Pegna expressed the hope that the Prime Minister might, if she were in the US at the time, be prepared to visit the Penney promotion. In his latest letter he accepts that it would not be possible for the Prime Minister to make any promises regarding a visit but seeks instead her agreement to give an interview to David Miller, President of Penneys, to be filmed on video for in-store presentation during the promotion. As you say, an interview on the lines suggested might not be appropriate. However, given the importance of the Penney promotion which will involve very significant purchases from the UK (certainly in excess of £50 million) for 450 of their stores, and the great importance that Penney's attach to tangible evidence of the Prime Minister's personal support, we think there will almost certainly be a strong case for the Prime Minister



(C)

+ offering a brief message, perhaps by way of a preface to a video film aimed at demonstrating the excellence of the range of British consumer goods available for export.

3 The attached draft reply to Mr Pegna is, therefore, fairly encouraging but (if you agree) also reflects our concern that whatever might be done should be in a suitable form and acceptable to the Prime Minister.

Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

Enc

JU386

DRAFT PRIVATE SECRETARY REPLY TO

E W Pegna Esq
Managing Director
Portman Limited
PO Box 4BX
4 Gee's Court
Barrett Street
London W1A 4BX

Thank you for your letter dated 21 September about the proposed British promotion by the J C Penney company. The Prime Minister is delighted to hear that these plans are making good progress and welcomes the opportunity that the promotion will provide for demonstrating the quality and craftsmanship of British goods.

I am afraid that it would not be practicable for the Prime Minister to give an interview in the form you have suggested, but she would certainly wish to keep in mind the possibility of sending a personal message. The best way in which this might be done is for consideration when the details of the promotion have been settled between Penneys and the BOTB. I have asked the officials concerned to keep this office in touch.

May I take this opportunity to thank you for your interest in making the promotion a success.

EW



PS/
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

5 July 1984

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Copies to:

PS/Minister for Trade
PS/Secretary (Trade)
PS/Lord Jellicoe
Mr Roberts
Mr Burbridge OT3
Mr Sunderland OT2
Mr Healey OT2
Mr Robinson OT3
Mr Rhodes (on file) OT3

Dear Charles,

Thank you for your letter of 21 June, covering a letter to the Prime Minister from Mr E W Pegna, Managing Director of Portman Ltd.

2 Mr Pegna's letter seeks the Prime Minister's support for an increase in the amount of BOTB funding that might be made available to the American department store, J C Penney Co, should the company undertake a major British promotion in September/October 1985. The rules of the British Overseas Trade Board's Store Promotion Scheme set a ceiling of £100,000 on any one event supported, but Mr Pegna argues this maximum does not reflect the importance of the projected event.

3 It is true that, if it takes place, the Penney promotion will be very much bigger than anything previously supported by BOTB and with this in mind, BOTB officials were prepared, in negotiations with Penny executives, to offer up to £200,000, if it was clear that an enhanced offer was necessary to secure the promotion. During discussions with the Penney team (including Mr Pegna) on 21 June, it became clear that Penney were bidding for support in terms of \$m's and that they were unlikely to be influenced by increases within the limits by which officials were constrained. BOTB officials also formed the opinion that while Penney certainly expected some BOTB support as evidence of backing from HMG, the level of this support was a secondary consideration compared with the availability of suitable merchandise from UK suppliers. In the circumstances, therefore, we decided not to offer support above the £100,000 ceiling, which Penney know is normally available for promotions of this kind.

4 Mr Pegna did, however, ask about the possibility of Penney buyers coming to the UK, receiving help under the BOTB Inward Mission Scheme, which meets travelling and reasonable hotel expenses of foreign buyers; the costs being split evenly between BOTB and the receiving industry. Although we would not normally allow inward mission arrangements for a store already benefitting

JH5ACR



from support under the Store Promotion Scheme, officials did indicate that, in the exceptional circumstances, they would be prepared to look sympathetically at the idea. Extra support channelled in this way would be modest in scale.

5 Mr Pegna also mentions the Prime Minister's visit to the Takashimaya Store Promotion in Japan in 1982 and expresses the hope that she might be able to visit the J C Penney event. Present indications are that the scale of the event, if it takes place, would be such as to warrant such a visit, if the Prime Minister or one of her colleagues were in the United States at the time and programmes could be suitably arranged. However, Mr Pegna clearly understands that commitments of this nature are out of the question so far ahead in time. A draft reply for the Prime Minister to send to Mr Pegna is attached.

6 The latest evidence suggests that Penney may well go ahead. As they have over 1,600 stores in all the major centres in the United States, this would be a very considerable boost for our consumer goods exports.

Yours ever,

A handwritten signature in cursive script, appearing to read 'Ruth'.

RUTH THOMPSON
Private Secretary

Enc

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

E W Pegna Esq
Portman Ltd
PO Box 5BX
4 Gee's Court
Barrett Street
London W1A 4BX

Thank you for your letter of 18 June, about the proposed British promotion by the J C Penney company in 1985.

From what you say in your letter and from the reports I have had about the initial meetings that Lord Jellicoe and his British Overseas Trade Board officials have had with senior executives of J C Penney, the event does indeed seem to offer significant opportunities to some British exporters. I was particularly struck by the usefulness of this form of promoting our exports of consumer goods, when I had the pleasure of visiting the Takashimaya event in September 1982, and I very much hope that Penney's even more ambitious plans will come to fruition.

Turning to the specific issue raised in your letter about the level of UK Government support that Penney might expect for launching a British promotion, I do not think I can add a great deal to what you have already been told by BOTB officials. The financial contribution by BOTB to overseas stores mounting British promotions, in a case such as this, is intended as a useful incentive and as an earnest of the BOTB's support. But the BOTB consider that, in view of its responsibility for getting the greatest value for money from

JH5ACS

the limited public funds at its disposal, it would be wrong to go further.

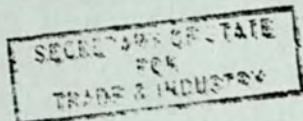
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I understand that, in discussion with officials, it was made clear that BOTB was willing to consider, exceptionally, the possibility of some extra, albeit modest, assistance by way of the Inward Mission arrangements, and you may wish to follow this up.

Finally, you were kind enough to suggest that my involvement in the event, should I be in North America at the time, would contribute to its success. As I am sure you will understand, it is not possible for me to undertake commitments so far ahead. However, I have noted your suggestion and if I, or any of my colleagues, are likely to be visiting the United States at the time, we shall certainly try to take account of the J C Penney British promotion in planning our engagements.

Meanwhile I very much hope that J C Penney will see it as in their own commercial interest, as I am sure it would be of the United Kingdom, to go ahead on the basis proposed.

JH5ACS



X

10 DOWNING STREET

1000 VI 21
From the Private Secretary

21 June 1984

Dear Andrew,

I enclose a copy of a letter from the Managing Director of Portman Limited seeking the Prime Minister's support for a proposed nationwide promotion in the United States of British consumer goods. The letter refers to negotiations between Lord Jellicoe and the President of J. C. Penney due to start today. I should be grateful for an early draft reply. You will wish to be aware that the Prime Minister has no present plans to visit the United States.

TO <u>Mr Healey</u>	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	<u>OT2</u>
PLEASE BY: <u>28/6</u>	<u>PS/MFP</u>
IF DEADLINE CANNOT BE MET	<u>PS/Sec</u>
PLEASE PHONE	<u>PS/Lord Jellicoe</u>
	<u>Mr Roberts</u>
	<u>Mr Sunderland</u>
	<u>OT2</u>

Yours sincerely,

Charles Powell

Andrew Lansley, Esq.,
Department of Trade and Industry.

Portman Limited

ASSOCIATED COMPANY OF SELFRIDGES LTD, LEWIS'S LTD.
AND OF MISS SELFRIDGE LTD.

P.O. Box 4BX, 4 GEE'S COURT
BARRETT STREET, LONDON W1A 4BX
Telephone: 01-493 8141 Telex: 263929
Cables & Telegrams: Selportex, London W1A 4BX

18th June 1984

The Rt. Hon. Margaret Thatcher M.P.,
10 Downing Street,
LONDON W1

Dear Prime Minister,

We are a subsidiary of Sears Holdings plc and we have since 1946 specialised in highlighting to our fellow retailers in Europe, Japan and America, the best of British consumer goods.

As major retailers addressing ourselves to other retailers, our advice has been entirely factual, based on market forces and motivated by our desire to maximise our own purchasing power and British manufacturers' selling potential.

You personally were instrumental last year in giving us a tremendous boost forward by opening the Takashimaya Store's British Promotion, and by encouraging their Chairman, Mr. Shin-Ichi Iida, to increase his efforts in purchasing British consumer goods.

We are now embarked on a considerably larger undertaking with the second largest retail store group in the United States of America, the J.C. Penney Company, where if we succeed in a proposed nationwide promotion of British consumer goods, mostly in the fashion, china and houseware fields, their proposed sales would be of the order of US\$100 million, rising to US\$200 million. This would be a major contribution to the British Overseas Trade Board's present sales drive to North America.

The feasibility studies and merchandise planning with industry have been started by us and we do not anticipate major problems, thanks to low inflation and the strong Dollar.

We know we cannot expect the same support you gave us in Japan, but should you be in North America in September 1985 it would undoubtedly be a major factor in achieving success.

The point of my letter is in fact to appeal to you for a special view to be taken on any Government financial support likely to be granted so as not to destabilise the present fine edge of competitiveness of British

/cont.....

AUSTRALIA John Martin & Co. Ltd., Adelaide
Boans Ltd., Perth, W.A.
G.P. Fitzgerald & Co. Ltd., Hobart
McDonnell & East Ltd., Brisbane
Venture Stores Ltd., Victoria
Hartley & Turner Pty Ltd, Victoria

AUSTRIA Alpenlandkaufhaus Kastner & Ohler, Graz
A. Gerngross Kaufhaus GMBH, Vienna
A. Hermansky GMBH, Vienna
Warenhaus Steffl A.G., Vienna

BELGIUM
FINLAND
FRANCE
GERMANY
GREAT BRITAIN

HOLLAND
ICELAND
JAPAN
LUXEMBOURG

GB-Inno-Bm S.A., Brussels
Oy Pukeva, Helsinki
Au Printemps S.A., Paris
Karstadt A.G., Essen
Lewis's Limited, Liverpool
Selfridges Limited, London
Vroom & Dreesmann, Amsterdam
Hagkaup, Reykjavik
Takashimaya Co. Ltd., Tokyo
Grands Magasins Monopole S.A., Luxembourg

PAPUA NEW GUINEA
SPAIN
SWEDEN
SWITZERLAND

U.S.A.

Steamships Trading Co. Ltd., Port Moresby
Galerias Preciados S.A., Madrid
Ahlen & Holm A.B., Stockholm
Grands Magasins Jeumont S.A., Zurich
Grands Magasins Innovation S.A., Lausanne
Au Grand Passage S.A., Geneva
Manor A.G., Basle
Haushalt A.G., Hochdorf
J.C. Penney Purchasing Corporation New York

DIRECTORS: G. Maitland Smith (Chairman) E. W. Pegna (Managing Director) R. N. H. Quinton R. N. Stephens

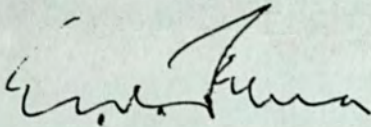
REGISTRATION: ENGLAND 419063

REGISTERED OFFICE: 40 DUKE STREET, LONDON W1A 4BX

goods, as would otherwise be the case, if industry were asked to provide the major promotional financial support needed by Penney.

Negotiations between Lord Jellicoe and the British Overseas Trade Board, and the President of J.C. Penney are about to start on 21st/22nd June.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'E.W. Pegna', written in a cursive style.

E.W. Pegna,
Managing Director.



filed

MR. E. W. REGNA

10 DOWNING STREET

From the Private Secretary

26 September 1984

I attach a copy of a letter which the Prime Minister has received from the Managing Director of Portman Limited.

BF | I should be grateful if you could let me have advice on this request, although on the face of it it does not seem appropriate for the Prime Minister to see Mr. Miller.

It would be helpful if your advice could reach me by Wednesday, 10 October.

CHARLES POWELL

Callum McCarthy, Esq.,
Department of Trade and Industry.



file 46

10 DOWNING STREET

From the Private Secretary

26 September 1984

Thank you for your letter of 21 September. This is receiving attention and a reply will be sent to you as soon as possible.

CHARLES POWELL

E.W. Pegna, Esq.

Portman Limited

ASSOCIATED COMPANY OF SELFRIDGES LTD, LEWIS'S LTD,
AND OF MISS SELFRIDGE LTD.

P.O. Box 4BX, 4 GEE'S COURT
BARRETT STREET, LONDON W1A 4BX
Telephone: 01-493 8141 Telex: 263929
Cables & Telegrams: Selportex, London W1A 4BX

21st September 1984

Mr. C. Powell,
Private Secretary,
10 Downing Street,
LONDON W1

Dear Mr Powell,

Sometime ago I wrote to the Prime Minister asking her if there was any chance of her helping us launch a U.S.\$200 million British Promotion in the J.C. Penney Company in the U.S.A. in the same way as she had helped us with Takashimaya in Japan. The Prime Minister has said that she could not say whether she would be in the U.S.A. in September 1985, but that if she is likely to be visiting the United States at the time, she would certainly try to take account of the promotion in planning her engagements.

During his recent visit to London Mr. Miller, the President of J.C. Penney, made a suggestion which we would like to put to the Prime Minister through you, and that is, would it be possible to arrange for a short interview to take place between himself and the Prime Minister which could be taped and used as an introduction to the launch of the campaign in September 1985.

The advantage of this suggestion is that any preliminary interview could be arranged at the Prime Minister's convenience, and Mr. Miller would be very happy to come over specially for it.

This would be a tremendous start to a nationwide sales campaign if it could be arranged.

Yours faithfully
E.W. Pegna

E.W. Pegna

AUSTRALIA John Martin & Co. Ltd., Adelaide
Boans Ltd., Perth, W.A.
G.P. Fitzgerald & Co. Ltd., Hobart
McDonnell & East Ltd., Brisbane
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REGISTERED OFFICE: 40 DUKE STREET, LONDON W1A 4BX

26 SEP 1981



file J.1
CDT 1

10 DOWNING STREET

THE PRIME MINISTER

9 July, 1984.

Dear Mr. Penney

Thank you for your letter of 18 June, about the proposed British promotion by the J.C. Penney company in 1985.

From what you say in your letter and from the reports I have had about the initial meetings that Lord Jellicoe and his British Overseas Trade Board officials have had with senior executives of J.C. Penny, the event does indeed seem to offer important prospects to British exporters. I was particularly struck by the usefulness of this form of promoting our exports of consumer goods when I was able to visit the Takashimaya event in September, 1982. I very much hope that Penney's even more ambitious plans will come to fruition.

On the specific point raised in your letter about the level of UK Government support that Penney might expect for launching a British promotion, I do not think I can add a great deal to what you have already been told by BOTB officials. The financial contribution by BOTB to overseas stores mounting British promotions, in a case such as this, is intended as a useful incentive and as an earnest of the BOTB's support. But the BOTB consider that, in view of its responsibility for getting the greatest value for money from the limited public funds at its disposal, it would be wrong to go further.

/ Naturally

Naturally BOTB officials here in the UK and in the United States will do all they can, in other ways, to make the promotion a success, but unless the company regards a British promotion as likely to contribute to its broad marketing objectives and is thus prepared to undertake the major financial responsibility for the event, it would not be in either party's longer term interests to go ahead.

I understand that, in discussion with officials, it was made clear that BOTB was willing to consider, exceptionally, the possibility of some extra, even if modest, assistance by way of the Inward Mission arrangements. You may wish to follow this up.

Finally, you were kind enough to suggest that my involvement in the event, should I be in North America at the time, would contribute to its success. As I am sure you will understand, I cannot take on commitments so far ahead. However, I have noted your suggestion, and if I, or any of my colleagues, are likely to be visiting the United States at the time, we shall certainly try to take account of the J.C. Penney British promotion in planning our engagements.

Thank you again for taking the trouble to keep me informed.

E.W. Pegna, Esq.

Yours sincerely
Margaret Thatcher

AB



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

PS/
Secretary of State for Trade and Industry

5 July 1984

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*Pl. type for
Prime Minister's
signature, attaching
Mr Pegna's letter &
the DTI's commentary
CDP 6/7.*

Dear Charles,

Thank you for your letter of 21 June, covering a letter to the Prime Minister from Mr E W Pegna, Managing Director of Portman Ltd.

2 Mr Pegna's letter seeks the Prime Minister's support for an increase in the amount of BOTB funding that might be made available to the American department store, J C Penney Co, should the company undertake a major British promotion in September/October 1985. The rules of the British Overseas Trade Board's Store Promotion Scheme set a ceiling of £100,000 on any one event supported, but Mr Pegna argues this maximum does not reflect the importance of the projected event.

3 It is true that, if it takes place, the Penney promotion will be very much bigger than anything previously supported by BOTB and with this in mind, BOTB officials were prepared, in negotiations with Penney executives, to offer up to £200,000, if it was clear that an enhanced offer was necessary to secure the promotion. During discussions with the Penney team (including Mr Pegna) on 21 June, it became clear that Penney were bidding for support in terms of \$m's and that they were unlikely to be influenced by increases within the limits by which officials were constrained. BOTB officials also formed the opinion that while Penney certainly expected some BOTB support as evidence of backing from HMG, the level of this support was a secondary consideration compared with the availability of suitable merchandise from UK suppliers. In the circumstances, therefore, we decided not to offer support above the £100,000 ceiling, which Penney know is normally available for promotions of this kind.

4 Mr Pegna did, however, ask about the possibility of Penney buyers coming to the UK, receiving help under the BOTB Inward Mission Scheme, which meets travelling and reasonable hotel expenses of foreign buyers; the costs being split evenly between BOTB and the receiving industry. Although we would not normally allow inward mission arrangements for a store already benefitting

JH5ACR



from support under the Store Promotion Scheme, officials did indicate that, in the exceptional circumstances, they would be prepared to look sympathetically at the idea. Extra support channelled in this way would be modest in scale.

5 Mr Pegna also mentions the Prime Minister's visit to the Takashimaya Store Promotion in Japan in 1982 and expresses the hope that she might be able to visit the J C Penney event. Present indications are that the scale of the event, if it takes place, would be such as to warrant such a visit, if the Prime Minister or one of her colleagues were in the United States at the time and programmes could be suitably arranged. However, Mr Pegna clearly understands that commitments of this nature are out of the question so far ahead in time. A draft reply for the Prime Minister to send to Mr Pegna is attached.

6 The latest evidence suggests that Penney may well go ahead. As they have over 1,600 stores in all the major centres in the United States, this would be a very considerable boost for our consumer goods exports.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

Enc

JH5ACR

AAU

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

E W Pegna Esq
Portman Ltd
PO Box 5BX
4 Gee's Court
Barrett Street
London W1A 4BX

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^{On} ~~Turning to~~ the specific ^{point} ~~issue~~ raised in your letter about the level of UK Government support that Penney might expect for launching a British promotion, I do not think I can add a great deal to what you have already been told by BOTB officials. The financial contribution by BOTB to overseas stores mounting British promotions, in a case such as this, is intended as a useful incentive and as an earnest of the BOTB's support. But the BOTB consider that, in view of its responsibility for getting the greatest value for money from

JH5ACS

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Naturally BOTB officials here in the UK and in the United States will do all they can, in other ways, to make the promotion a success, but unless the company regards a British promotion as likely to contribute to its broad marketing objectives and is thus prepared to undertake the major financial responsibility for the event, it would not be in either party's longer term interests to go ahead.

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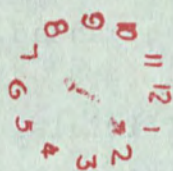
Meanwhile I very much hope that J C Penney will see it as in their own commercial interest, as I am sure it would be of the United Kingdom, to go ahead on the basis proposed.

*Thank you again for this
we would be happy to keep you ~~informed~~ informed.*

CD

JH5ACS

Japan : PM's visit, Khay. Pt 2.



- 6 JUL 1984



10 DOWNING STREET

From the Private Secretary

21 June 1984

BF /

I enclose a copy of a letter from the Managing Director of Portman Limited seeking the Prime Minister's support for a proposed nationwide promotion in the United States of British consumer goods. The letter refers to negotiations between Lord Jellicoe and the President of J. C. Penney due to start today. I should be grateful for an early draft reply. You will wish to be aware that the Prime Minister has no present plans to visit the United States.

Charles Powell

Andrew Lansley, Esq.,
Department of Trade and Industry.

Portman Limited

ASSOCIATED COMPANY OF SELFRIDGES LTD. LEWIS'S LTD.
AND OF MISS SELFRIDGE LTD.

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Cables & Telegrams: Selportex, London W1A 4BX

18th June 1984

The Rt. Hon. Margaret Thatcher M.P.,
10 Downing Street,
LONDON W1

Dear Prime Minister,

We are a subsidiary of Sears Holdings plc and we have since 1946 specialised in highlighting to our fellow retailers in Europe, Japan and America, the best of British consumer goods.

As major retailers addressing ourselves to other retailers, our advice has been entirely factual, based on market forces and motivated by our desire to maximise our own purchasing power and British manufacturers' selling potential.

You personally were instrumental last year in giving us a tremendous boost forward by opening the Takashimaya Store's British Promotion, and by encouraging their Chairman, Mr. Shin-Ichi Iida, to increase his efforts in purchasing British consumer goods.

We are now embarked on a considerably larger undertaking with the second largest retail store group in the United States of America, the J.C. Penney Company, where if we succeed in a proposed nationwide promotion of British consumer goods, mostly in the fashion, china and houseware fields, their proposed sales would be of the order of US\$100 million, rising to US\$200 million. This would be a major contribution to the British Overseas Trade Board's present sales drive to North America.

The feasibility studies and merchandise planning with industry have been started by us and we do not anticipate major problems, thanks to low inflation and the strong Dollar.

We know we cannot expect the same support you gave us in Japan, but should you be in North America in September 1985 it would undoubtedly be a major factor in achieving success.

The point of my letter is in fact to appeal to you for a special view to be taken on any Government financial support likely to be granted so as not to destabilise the present fine edge of competitiveness of British

/cont.

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FRANCE Au Printemps S.A., Paris
GERMANY Karstadt A.G., Essen
GREAT BRITAIN Lewis's Limited, Liverpool
Selfridges Limited, London
Vroom & Dreesmann, Amsterdam
HOLLAND Hagkaup, Reykjavik
ICELAND Takashimaya Co. Ltd., Tokyo
JAPAN Grands Magasins Monopoli S.A., Luxembourg
LUXEMBOURG

PAPUA NEW GUINEA Steamships Trading Co. Ltd., Port Moresby
SPAIN Galerias Preciados S.A. Madrid
SWEDEN Ahlen & Holm A.B., Stockholm
SWITZERLAND Grands Magasins Jelmoli S.A., Zurich
Grands Magasins Innovation S.A., Lausanne
Au Grand Passage S.A., Geneva
Manor A.G. Basle
Haushalt A.G. Hochdorf
U.S.A. J.C. Penney Purchasing Corporation New York

DIRECTORS: G. Maitland Smith (Chairman) E. W. Pegna (Managing Director) R. N. H. Quinton R. N. Stephens

REGISTRATION: ENGLAND 419063

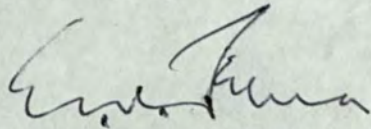
REGISTERED OFFICE: 40 DUKE STREET, LONDON W1A 4BX

2.

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Negotiations between Lord Jellicoe and the British Overseas Trade Board, and the President of J.C. Penney are about to start on 21st/22nd June.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'E.W. Pegna', written in a cursive style.

E.W. Pegna,
Managing Director.

Japan: PM's visit P+2

13 June 1983

JAPAN

Thank you for your letter of 7 June about the arrangements for the stay of Prince Hiro in this country. The Prime Minister has noted these arrangements and has said that she would like to receive Prince Hiro in the autumn. We can be in touch about a suitable date in due course.

AJC

J.E. Holmes, Esq.,
Foreign and Commonwealth Office.

12

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>1556</i> (one piece/item number)	
Extract/Item details: <i>Holmes to Coles dated 7 June 1983</i>	
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..... *GRA 168*

PIECE/ITEM *49*

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TNA)



10 DOWNING STREET

THE PRIME MINISTER

7 January 1983

Dear Mr. Watanabe,

It was very kind of you to write to me on the occasion of your departure from the post of Minister of Finance.

I am particularly grateful for your good wishes.

I remember our meetings with pleasure, and in particular our conversation in Tokyo when I visited Japan last September. I agree with you that the development of international co-operation is of increasing importance given the inter-dependence of the world economy.

My best wishes for success and good fortune in the future.

Yours sincerely
Margaret Thatcher

Mr. Michio Watanabe.

Japan CR

ce/cu

Alan

Could this go on
Japan Visit file in
vis of 'X'? Kay 12/1

Kay
Thank you
10/1



GR
APR ?
Foreign and Commonwealth Office

London SW1A 2AH

5 January, 1983

Type letter p.

A-J.C. $\frac{6}{1}$

Dear Sir,

Thank you for your letter of 30 December enclosing a letter from Mr Michio Watanabe, formerly the Japanese Minister of Finance.

/ We agree that the letter requires no more than an acknowledgement, and I enclose a possible draft reply. Mr Watanabe is right in saying that his departure from his recent Cabinet post does not mean that he is out of politics; on the contrary, he is one of the most active of the younger leaders of the Japanese Liberal Democratic Party (he is now 58) and has long been a close associate of the present Prime Minister, Mr Nakasone.

Yours ever

John Holmes

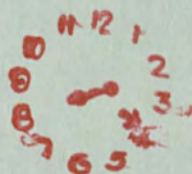
(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

Foreign and Commonwealth Office

London W1A 1AA

5 JAN 1983



DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret
Secret
Confidential
Restricted
Unclassified

Mr Michio Watanabe
House of Representatives
Japan

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

It was very kind of you to write to me on the occasion
of your departure from the post of Minister of Finance.
I am particularly grateful for your good wishes.

CAVEAT.....

I remember our meetings with pleasure, and in particular
our conversation in Tokyo when I visited Japan last
September. I know that you will continue to play an
important part in Japanese politics and ~~am grateful for~~
~~what you say about the development of international~~
~~cooperation at a time when~~ ^{is of increasing importance given} the inter-dependence of the
world economy. ~~is of increasing importance.~~

~~May I wish you every personal success~~ ^{and} ~~in future~~ ^{and good}
~~fortune in the future.~~

MR ^{5.}
₁

Enclosures—flag(s).....

Left meantime?

HL



FW going back 5/1
(Alison Watters)

10 DOWNING STREET

From the Private Secretary

30 December 1982

Pl ask FWO on Thurs

if they are likely
to be answering him

Soon

If they are not

pl ask

("Please before PM")

As I mentioned on the telephone, the Prime Minister has received the attached letter from Mr. Michio Watanabe who was until recently the Japanese Minister of Finance. At first sight it seems to require no more than an acknowledgement but I should be grateful for your advice on whether this is in fact the case and in any event for a draft reply which the Prime Minister could send to Mr. Watanabe.

Tim Flesher

Brian Fall, Esq.,
Foreign and Commonwealth Office.

WM

4/1

December 15, 1982

The Right Honorable
Margaret Thatcher M.P.
Prime Minister
No. 10 Downing Street
London SW1
England

C30

Your Excellency,

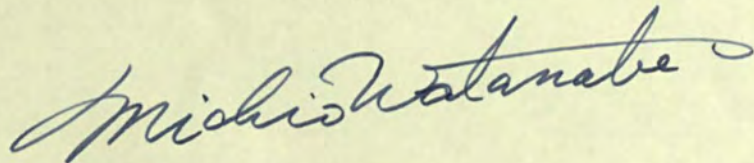
I recently resigned my post as Minister of Finance when the Nakasone Cabinet was formed in Japan. I feel very honored and privileged to have had several opportunities to meet with you during my tenure of office.

Although I left the position of Minister of Finance for a while, the change of the cabinets occurred within the Liberal Democratic Party, and the Nakasone Cabinet was formed by our support. Because the world economy continues to be interdependent and it is almost impossible for one country alone to enjoy economic prosperity, international cooperation is becoming increasingly important. Therefore, I will continue to help the new cabinet further strengthen the ties between our two countries.

Last, but not least, I would like to reiterate my feeling of gratitude to you. I wish you continued health and further success in all your endeavors.

With my warmest personal regards,

Sincerely yours,

A handwritten signature in dark ink, reading "Michio Watanabe". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Michio Watanabe



10 DOWNING STREET

From the Principal Private Secretary

15 November 1982

Dear Neil,

Thank you for your letter of 25 October about Nippon Electric Company's offer of a voice recognition computer to the Prime Minister.

I have now been informed by the Embassy that, contrary to our earlier understanding, the system (which is a connected speech recognition system) is already on sale in Japan and the United States and a significant marketing campaign is about to begin in Europe. Although I do not doubt that the motives of Dr Kobayashi in making the offer were those of promoting international co-operation and technology, there must be a risk in these circumstances that the Prime Minister's reception of one of these machines would be seen as her giving her name to the promotion of a Japanese commercial product.

I am also informed by the Embassy in Tokyo that Nippon Electric have been considering separately presenting the system to Edinburgh and Heriot-Watt universities when their Livingston factory opens in June. If they proceed with this, the system will anyway become available for research in the United Kingdom.

In these circumstances, the Prime Minister has concluded that it would be best if she did not take up Dr Kobayashi's offer.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and to Sir Robert Armstrong.

Yours sincerely,

Robin Butler

Neil McMillan Esq.,
Department of Industry.

Japan
26 AH
cc FCO
CO

AH

PRIME MINISTER

I am cooling off the idea that you should accept a presentation of the voice recognition computer from the Nippon Electric Company (papers attached).

I have been advised by the Embassy, contrary to our earlier information, that the system is already on sale in Japan and the United States and that a significant marketing campaign is about to begin in Europe. I am afraid that your accepting one of these systems might be seen as part of that marketing campaign.

The Embassy have also told us that the firm have been considering presenting the system to Edinburgh and Heriot-Watt universities when their Livingston factory opens in June. So the system may therefore become available then.

We have not gone back to the Chairman of the Nippon Electric Company in response to his offer to present you with one of these computers, and I am now inclined to let it lapse. We have no commitment to pursue it, and we were advised that Dr Kobayashi would not press the offer if there was any reluctance on our part.

Agree to let this lapse ?

Yes m

F.E.R.B.

12 November 1982

Pl. file

MR. BUTLERJapan: Computer Problem

Mr. Whitehead rang from Tokyo this morning to convey answers to questions you had put earlier.

The system is a connected speech recognition system.

It is already on sale in Japan and the United States. It is available in Europe where a significant marketing campaign is about to begin.

Its cost is quoted in Japan at roughly £13,000 per system. But not too much reliance should be placed on this figure since it depends on exchange rates fluctuations and because pricing in this area of technology is pretty flexible.

Mr. Whitehead said that there had earlier been a thought that the firm might present the system to Edinburgh and Heriot Watt Universities when the Livingstone factory opens in June. The firm were now well on the way to a decision to make such a presentation. The system may therefore become available in the fairly near future for scientific research in the UK.

Mr. Whitehead said that the firm were showing some interest in inviting The Queen to open the Livingstone factory. If this came to fruition, the idea that the universities should be presented with the equipment might fall away.

The Embassy in Tokyo now regard the ball as being in our court.

A. J. G.

11 November 1982

COVERING CONFIDENTIAL

original filed in -

China - Peking to China: A-



Foreign and Commonwealth Office

London SW1A 2AH

10 November 1982

A. J. C. "u"

p.a.

John Tanner

Prime Minister's Tour of the Far East

/ I enclose copies of despatches which we have received recently from HM Ambassadors in Tokyo and Peking on Mrs. Thatcher's visits to Japan and China. Both are being printed for wide distribution, but as this process appears likely to take some time, you might like to have these advance copies now.

Yours ever,

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

COVERING CONFIDENTIAL



BRITISH EMBASSY,
TOKYO.

4 October 1982

The Rt Hon Francis Pym MC MP
LONDON

Sir

PRIME MINISTER'S VISIT TO JAPAN

1. The Prime Minister, the Rt Hon Margaret Thatcher MP, accompanied by Mr Thatcher, paid an official visit to Japan from 17 to 22 September as the first stage in a tour of the Far East which included subsequent visits to China and Hong Kong.
2. This was Mrs Thatcher's third visit to Japan in 5 years; she had previously come here as Leader of the Opposition in 1977 and for the Tokyo Economic Summit in 1979. But this was her first visit as Prime Minister on a bilateral basis and was only the second such visit ever by a British Prime Minister (Mr Heath visited Japan in 1972). The visit therefore had a certain historical perspective.
3. The visit fell somewhat naturally into two parts: the first half included a weekend which was taken up substantially by visits to Tsukuba Science City, to the nuclear power stations at Tokai Mura and to the Fujitsu Fanuc robotics factory near Mount Fuji. The second half included almost all the discussions with Mr Suzuki, other Japanese Ministers and politicians and Japanese industrialists. A copy of the Prime Minister's programme is attached. Mr Thatcher accompanied the Prime Minister on all the industrial visits and for most of the social occasions. In addition

/he



he paid visits to the Sony Corporation offices and the Asahi newspaper.

4. Organisationally Japanese planning for the visit was meticulous and in the event all the arrangements went like clockwork.

Security arrangements were tight but not for the most part unduly obtrusive; there was still the opportunity for Mrs Thatcher to greet crowds of school children on several occasions.

5. Mr Suzuki also took considerable trouble to prepare himself for the visit. There were several indicators that he was concerned that continuing problems in trade relations and Japan's comparatively unhelpful attitude over the Falklands crisis might have soured the atmosphere in the run up to the visit and could have led to recriminations during it. In the event the discussions were warm, constructive and potentially useful.

6. But the warmth clothed a clear and tough message. The world recession and high unemployment in the UK meant rising pressures for protectionism which would be hard to resist unless there were

- (a) more imports into Japan of British manufactured goods (BAe 146, Search-Water Radar, Harrier etc were specifically mentioned);
- (b) solutions on an industry to industry basis to problems where our industries might be hard hit (machine tools, forklift trucks);
- (c) much more Japanese investment in the UK (particular emphasis was placed on the Nissan project but no decisions were expected or taken);
- (d) more efforts to stimulate industrial collaboration.



7. The Prime Minister also had a more general message: Japan must shoulder more of the responsibilities of her economic success.
8. All of these messages were received loud and clear not only by Mr Suzuki but by the Japanese Ministers of Foreign Affairs and International Trade and Industry with whom the Prime Minister also had discussions. Their responses were for the most part guarded without appearing negative. Suzuki was quick to emphasise the importance of the free trading system but had nothing to say about the prospect of a \$17 to 20 billion surplus on visible trade next year. None of the Japanese Ministers suggested that they were prepared to embark on a policy of stimulating domestic demand to any noticeable extent, preferring to concentrate on the importance of reducing the budget deficit and public expenditure: both points struck an echoing chord with the Prime Minister. Mr Suzuki's recipe for revitalising the world economy was much the same as at Versailles: the promotion of joint research and development in advanced technology (he envisaged joint efforts on a bilateral basis between Japan and the UK, Germany and the United States), the promotion of investment, technological advance and industrial collaboration in third countries, and measures to ease the problems of developing countries with accumulated debt now standing at \$500 billion and annual repayments of \$100 billion. Both sides agreed that on this latter point countries in difficulties should submit themselves to IMF disciplines.
9. On bilateral matters the Japanese described the measures which the Government had taken in recent months to ease the import

/regime



regime: agreed that inter-industry contacts were valuable in dealing with particular sectoral problems and therefore welcomed a mission from the British machine tool industry next month: and attached importance to the UK as a location for further Japanese investment while making it clear that this was essentially a matter for commercial decision.

10. On industrial collaboration in the form of technical tie ups and joint ventures the Japanese response was somewhat less positive than had been expected particularly in view of the political capital which the Japanese and Mr Suzuki in particular have invested in this field in recent months as a means of easing trade problems. Suzuki's brief was querulous and defensive, concentrating too much on apportioning blame for the slow progress so far. We are not alone in finding the Japanese slow in delivering worthwhile results in this field; the French, even after President Mitterrand's visit in April and the Americans, admittedly with interest specifically at the top end of the technology field, are both encountering difficulties. Japanese government is aware of the political importance of this matter but pleads, with some justification, that they can encourage Japanese industry to come forward but cannot take the commercial decisions. Japanese industry recognises that they must keep protectionist pressures at bay but are less inclined in general to see commercial and technical advantage to themselves in joint ventures with foreign companies.

11. The Prime Minister's industrial visits, to Tsukuba Science City, the nuclear power stations at Tokai Mura and the Fanuc

/robotics



robotics factory were I think well worthwhile not only in demonstrating the strong British connection with Japan in the nuclear field but in showing the Prime Minister fields of research and production in which the Japanese performance is particularly good. Mrs Thatcher was unstinting in her praise for Japanese efficiency and their ability to apply the results of research. But she also took every opportunity to remind the Japanese of Britain's long and distinguished record in research in many fields and of her own determination that the UK should match Japan in applying the results of this research. At the end of the visit the Prime Minister announced that the UK would participate fully in the Tsukuba '85 Exposition. Both Prime Minister's had previously agreed that they attached importance to concluding a Technology Agreement (in the Japanese view a Science and Technology Agreement) provided that it contained more than generalities and led to tangible results

12. On political matters both Prime Ministers agreed that they should try to meet more often and Mrs Thatcher invited Mr Suzuki to visit London as an official guest at a time as yet unspecified. It was important to give an impetus to contact on political matters at both Ministerial and official level. Mr Suzuki referred to Britain as the "axis of Europe". On the Falklands the Prime Minister referred in passing to a misunderstanding between Japan and Britain in the past but said she wished now to concentrate on the future. She put the Japanese clearly on notice that Britain would not find it possible to negotiate with Argentina over sovereignty and would resist pressure at the UN to do so. On

/Hong



Hong Kong Mr Suzuki made the right noises in recognising that the issue was primarily a bilateral one between the British and Chinese Governments while emphasising that Japan's economic relations with Hong Kong meant that she was deeply interested in its future stability and prosperity.

13. Coverage of the visit by the Japanese media was extensive and almost entirely laudatory. In particular the Prime Minister's 45 minute interview on NHK made a major impact on Japanese in almost all walks of life: "that is how a Prime Minister should be".

14. At the end of her visit the Prime Minister told the British press that she had seen and done much in Japan and enjoyed her time here. I hope that this was so, although the pace of her programme can have afforded little time for enjoyment particularly since there was scarcely any breathing space after the long air journey from London. But even allowing for the lack of personality of Mr Suzuki himself and the cautious responses of most Japanese on international issues, whether economic or political, I think that much was usefully achieved which should help the image of the United Kingdom in Japan and enable us to carry forward British policies in this curiously isolated and different country. The Prime Minister was uniquely qualified to talk about the policies of her administration in seeking to change many attitudes in Britain and in particular the climate for British industry. It is in this field that the Japanese will be looking most closely at our record in the years to come. Mrs Thatcher said on several occasions that fair words were not enough, "we must look at the figures". Japan too is very conscious of figures. In Japanese eyes an important,

/perhaps



perhaps crucial, shift in British Government policy has been successfully launched; but Japan will be looking for the follow through and watching the figures. If they improve - as regards industrial production, days lost because of strikes, inflation, and in due course unemployment - then our stock will inevitably rise. If not, then in the Japanese view it will be another case of hope postponed and the Japanese will continue to attach less importance to the United Kingdom and indeed to the whole of Europe than we would wish or think we merit.

15. I am sending copies of this despatch to HM Ambassadors in Washington, Peking, the United Kingdom Permanent Representative to the European Community and to the Governor in Hong Kong.

I am, Sir

Yours faithfully

Hugh Cortazzi

CONFIDENTIAL



SUMMARY

PRIME MINISTER'S VISIT TO JAPAN

1. The Prime Minister, accompanied by Mr Thatcher, paid an official visit to Japan from 17 to 22 September 1982. This was only the second ever bilateral visit by a British Prime Minister. (Paragraphs 1-2)
2. The visit, which consisted of a weekend taken up mainly by visits to industrial sites and research establishments followed by 2 days of ministerial talks and interviews, was well planned and executed. (Paragraphs 3-4)
3. The Japanese had been concerned about trade problems and the Falklands during the run up to the visit but in the event the discussions were warm, constructive and potentially useful. (Paragraph 5)
4. But the warmth clothed a clear and tough message: world recession and high unemployment would produce protectionist pressures which would be hard to resist unless the trend in visible trade between Britain and Japan were reversed and unless industrial collaboration (Japanese investment in the UK and tie ups between Japanese and British firms) produced results. More generally Japan must shoulder more of the responsibilities of her economic success. (Paragraphs 6-7)
5. These messages were received loud and clear but the Japanese responses were guarded, particularly on industrial collaboration (Paragraphs 8-10)
6. The Prime Minister announced that the UK would participate in the Tsukuba '85 Exposition. Both Prime Ministers attached

/importance



importance to some form of Technology Agreement provided that it led to tangible results. (Paragraph 11)

7. The Prime Minister invited Mr Suzuki to visit the UK as an official guest. Some impetus was given to political consultation between Britain and Japan. (Paragraph 12)

8. Coverage by the media was very good and almost entirely laudatory. (Paragraph 13)

9. We must now build on the bridgeheads established. But our clout with the Japanese will depend almost entirely on the success that HMG achieves in reinvigorating British industry. (Paragraph 14)



PROGRAMME FOR THE PRIME MINISTER'S VISIT TO JAPAN 17-22 SEPTEMBER 196

Friday 17 September

- 1300 Arrive Haneda Airport
Met by Japanese Suite of Honour
and Official Suite
- 1500-1515 Official welcoming ceremony at Akasaka Palace
- 1520-1550 Courtesy call by Mr Suzuki
- 1615-1700 Tea with HIH Princess Chichibu
- 1900-1930 Reception for Embassy staff at
HM Ambassador's Residence
- 1930 Supper with senior Embassy staff
at HM Ambassador's Residence

Saturday 18 September

- 0900 Leave Akasaka Palace by helicopter for
Tsukuba Science City
- 0950 Visit Electrotechnical Laboratory, Tsukuba
- 1150 Arrive Tokai Mura port area
- 1150-1225 Visit port area and 'Pacific Swan'
- 1235-1335 Lunch at Tokai Nuclear Power Station
- 1350-1410 Photographs and tree planting ceremony
- 1415-1440 Visit Tokai 1 turbine hall and main control room
- 1445-1510 Visit Tokai 2 turbine hall and main control room
- 1520-1610 Visit JT60
- 1620 Depart for Akasaka Palace
- 1930 Dinner for representatives of Japanese
industry at HM Ambassador's Residence

/Sunday



-2-

Sunday 19 September

1100 Arrive Fuji factory of FANUC
1100-1200 Tour of factory
1200-1300 Lunch at Executive Club of factory then return to Akasaka Palace (1400)
1440-1535 Visit Tasaki Pearl Showroom
1700-1740 Call by Mr T Fukuda at Akasaka Palace
1750-1830 Call by Mr K Kawamata and Mr Goto of Nissan at Akasaka Palace
1930 Dinner for British businessmen at Japanese Pavilion at Akasaka Palace

Monday 20 September

0915-1125 Talks with Mr Suzuki at Prime Minister's Official Residence
1200-1420 Imperial Audience followed by Court Luncheon at Imperial Palace
1445-1525 Call by Minister for Foreign Affairs at Akasaka Palace
1527-1557 Call by MITI Minister at Akasaka Palace
1600-1630 Call by Minister for Finance at Akasaka Palace
1635-1700 Call by Mr Esaki and Mr Kuranari
1825 Reception by British associations in the Kanto at Hilton Hotel
1930 Dinner hosted by Mr Suzuki at Prime Minister's Official Residence

Tuesday 21 September

0915-1000 Visit British Promotion at Takashimaya Department Store

/1030-1130



-3-

(Tuesday 21 September)

1030-1130	TV Interview with NHK (Japan Broadcasting Association)
1230-1430	Lunch and talks with Economic Organisations at Tokyo Kaikan
1500-1630	Speech and Press Conference at Japan Press Club
1645-1730	Meeting with British Press at Akasaka Palace
1930	Return banquet at HM Ambassador's Residence

Wednesday 22 September

0830-0845	Farewell call by Mr Suzuki at Akasaka Palace
0930	Depart Haneda Airport for Peking

W. R. 1

PRIME MINISTER

Mum *MS*

At the dinner for Japanese businessmen during your visit to Tokyo, the Chairman of the Nippon Electric Company, Dr. Kobayashi (who was sitting next to you at the Ambassador's dinner) told me that he would like to make available to you a voice recognition computer, which is being developed by his company and which has been a personal project of his own. He presented one to President Mitterrand, who I understand passed it to the French Telephone Service for use in research.

Dr. Kobayashi said to me that he would be quite content that you should similarly pass on the machine to a British university or research institute. He stressed that he had no interest in making the offer of this machine other than as a contribution to international co-operation in technology. It does not appear to be a commercial tactic for promoting sales: Mr. Kobayashi told me that another ten years' development will be needed before this machine will have reached the point of commercial exploitation.

The Ambassador hoped that you might accept one of the machines, but said that Dr. Kobayashi would be the last person to press the offer if there was any reluctance on our part.

After our return to London, I sought the advice of Mr. Kenneth Baker's office, and this is attached. They advise that, although NEC are not thought to have anything significantly in advance of British machines, you should accept the offer and make it available to the National Physical Laboratory.

You will recall that NEC are investing in a factory at Livingstone, and we would no doubt have to arrange a small ceremony here, at which Dr. Kobayashi could present the machine to you. This would bring with it some further publicity for Japanese technology but you did of course present a British micro computer to Mr. Suzuki and I gather that you are planning shortly to meet a British robot.

/Do you agree

Do you agree that we should ask our Ambassador in Tokyo to say to Dr. Kobayashi that you would be glad to receive a presentation of this voice recognition computer which you would then propose to make available to the ~~National Physical Laboratory~~?

a scientific institute.

(There may
be better

F.R.B. homes

than the NPL)

27 October 1982



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER'S OFFICE

Robin Butler Esq
Principal Private Secretary
to the Prime Minister
10 Downing Street

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

25 October 1982

Dear Robin

Thank you for your letter of 11 October about Nippon Electric Company (NEC)'s offer of a voice recognition computer to the Prime Minister.

Our advice is that you should take up the offer, with a view to the machine being passed on to the National Physical Laboratory (NPL).

Acceptance by the Prime Minister would help to cement relations with NEC, following their decision to make a major investment in semi-conductor manufacture in Scotland, and would provide a further example of international co-operation in advancing technology. Although we do not have confirmation from Tokyo, we think the machine being offered is a connected speech recognition system which costs about £12,000. So the gift would not be disproportionate in size.

Several British firms are active in the field of speech recognition, including Logica, Marconi and Plessey; and NEC are not thought to have anything significantly in advance of British machines. But there is interest in several research institutes and establishments in the machine, of which in our view, the most suitable recipient would be NPL. NPL are working in this field and through whom use could be made available to interested organisations in NPL's speech recognition club. The Joint Speech Research Unit at GCHQ might also be interested in use of the machine. Since NPL would not otherwise obtain such a system there would be no question of acceptance of the NEC offer precluding the purchase of a British alternative.

I am copying this letter to the recipients of yours.

Yours sincerely

N M McMillan

N M McMILLAN
PRIVATE SECRETARY

M64/M64AAC

Japan

PM's visit



26 OCT 1963

SECRET



Japan. 2

Ref. A09747

PKS

MR BUTLER

I read with interest my copy of your letter of 11th October to Mr Neil McMillan at the Department of Industry about the offer of the Nippon Electric Company to make a voice recognition computer available to the Prime Minister.

2. I do not know whether the Department of Industry will be interested; but I have friends who would, I think, be very interested in getting their hands on this computer. So I hope that the offer will not be turned down for lack of interest.

ReA

ROBERT ARMSTRONG

13th October 1982

SECRET

Japan

pm's visit





10 DOWNING STREET

From the Principal Private Secretary

11 October 1982

Japan
26 AH
US FCO
CO

Dear Neil,

During the Prime Minister's visit to Japan, the Chairman of the Nippon Electric Company, Dr Kobayashi, offered, through our Ambassador in Japan, to make available to the Prime Minister a voice recognition computer, which is being developed by his company. He met the Prime Minister at a dinner given by the Ambassador, and in the course of the evening repeated this offer to me, saying that he would be quite content for the Prime Minister to pass her machine on to a British university or research institute. He stressed that he had no interest in making the offer other than international co-operation in advancing technology. Apparently President Mitterrand has accepted one of these computers and I understand that it is being used for research purposes by the French telephone service.

I should be very grateful for your advice on whether we should take up this offer. The Ambassador, who will be able to let you have more details, hoped that the Prime Minister might accept one of these machines, but that Dr Kobayashi would not press it if there was any reluctance on the part of the Government. You will be aware that the Nippon Electric Company are opening a factory in Scotland this autumn.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and to Sir Robert Armstrong.

Yours sincerely,

Robin Butler

Neil McMillan Esq.,
Department of Industry.

AH

CONFIDENTIAL

Tapan Pdy HLL



2/1-

10 DOWNING STREET

From the Private Secretary

4 October 1982

Visit of the Prime Minister to the Far East

I think the Prime Minister would find it helpful to have a brief note soon explaining how Departments propose to follow up the various points outstanding from her visit to the Far East. In preparing such a note you may like to bear the following points in mind.

Hong Kong

I understand that, following a brief discussion at Cabinet last Thursday, the Home Secretary may wish to let the Prime Minister have his views on the question of the use of the term "British nationals" in Hong Kong passports.

China

As you know, the Prime Minister undertook to consider whether we could help with:

- (a) The Luda destroyer project;
- (b) Fees for Chinese students in Britain and English language training for Chinese.

In considering advice on these matters, I believe that the Prime Minister will wish to consider carefully whether it is appropriate to make any further gestures to the Chinese until they have shown themselves disposed to be helpful over the future of Hong Kong (or, conversely, whether any such gestures could help to produce the solution we require).

Japan

You will recall that the Prime Minister invited the Japanese Prime Minister to visit Britain, though without naming a date. The Prime Minister told me later that she thought we should attempt to time the visit in the way most likely to advance our economic interests.

In view of the references to the future of Hong Kong in this letter, I am not copying it to other Departments, but you will doubtless consult them before replying.

JC

John Holmes, Esq.
Foreign and Commonwealth Office

CONFIDENTIAL



10 DOWNING STREET

cc: FCO

THE PRIME MINISTER

1 October, 1982

Dear Ambassador,

When I returned from my visit to the Far East last night I found waiting for me your lovely album of photographs which you took in Tokyo. I am extremely grateful to you for this kind thought and they will serve as an excellent record of my enjoyable stay in your country.

With all best wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Tsuyoshi Hirahara

RW

covering

CONFIDENTIAL



CS

Tsy

D/I

D/T

File AH

10 DOWNING STREET

From the Principal Private Secretary

30 September 1982

Dear John,

To complete your collection of records of the Prime Minister's meetings in Japan, I am enclosing a copy of the record of her initial meeting with Mr Suzuki.

Firmly - See - 17/9/82

I am sending copies also to John Kerr (Treasury), Jonathan Spencer (Department of Industry) and John Rhodes (Department of Trade). The Ambassador in Tokyo already has a copy of the record.

Yours sincerely,

Robin Butler

John Holmes Esq.,
Foreign and Commonwealth Office.

covering

CONFIDENTIAL

AH



10 DOWNING STREET

From the Private Secretary

30 September 1982

Dear John,

Prime Minister's visit to Japan

I enclose a copy of the record of the conversation between the Prime Minister and the Japanese Prime Minister on Monday 20 September.

I also enclose the agreed joint statement relating to a possible agreement on technology (which is referred to on page 10 of the record).

I am sending copies of this letter and enclosure to John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry), John Kerr (H.M. Treasury), and Richard Hatfield (Cabinet Office) and also to H.M. Ambassador in Tokyo.

Yours ever

John Major

John Holmes, Esq.,
Foreign and Commonwealth Office.

c HMA - Tokyo
Trade
Dind
HMT
CO.

HL

5

CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

30 September 1982

Dear Jonathan,

Prime Minister's meetings with Mr. Abe, Japanese Minister for International Trade and Industry and Mr. Esaki, Japanese Government Special Trade Representative in Tokyo

I attach a copy of the Prime Minister's meetings in Tokyo with the Japanese Minister for International Trade and Industry and the Japanese Government Special Trade Representative.

I am copying this letter to John Kerr (H.M. Treasury), Brian Fall (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), John Rhodes (Department of Trade), Richard Hatfield (Cabinet Office) and the Ambassador in Tokyo. In view of the penultimate paragraph I am also sending to Murdo Maclean (Chief Whip's Office) a copy of the record of the conversation with Mr. Esaki.

Yours sincerely,

Robin Butler

My Records Dept on 20/9/82

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

File No.

OUTWARD

Department

TELEGRAM

Drafted by
(Block Capitals)Security Classification
UNCLASSIFIEDPrecedence
IMMEDIATE

Tel. Extn.

DESKBYZ

FOR
COMMS. DEPT.
USE

Despatched

(Date)

POSTBYZ

(Time)Z

PREAMBLE

(Time of Origin)Z(G.M.T.)

(Restrictive Prefix).....

(Security Class.).....

(Caveat/
Privacy Marking)

(Codeword)

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TO IMMEDIATE
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AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info)

SAVING TO (for info)

Distribution:-

[TEXT]

FOR CHARLESWORTH FROM MRS. RYDER, PRIME MINISTER'S PARTY

The Prime Minister and Mr. Thatcher have requested that the Black Books (containing programme notes, etc.) given to them during their recent tour of Japan be returned to No. 10.

It is possible that these were returned to Tokyo by Bag from Hong Kong.

Grateful if you can also provide full names of all Mr. Thatcher's golf partners on Tuesday, 21 September.

Copies to:-

CONFIDENTIAL

Prime Minister
Some headings, which
I hope may be useful.

PERB
29.9.

Far East Tour - headings for report to Cabinet

Japan

Mainly concerned with trading issues.

Message - growing Japanese surplus (-\$11 b. in 1980, + \$5 b. in 1981, + \$17-20 b. forecast for next year) threat to open trading system.

Pressed them on 3 fronts -

- (i) Inter-industry agreements on import restraint - agreement on immediate machine tool mission.
- (2) Opening market to more British goods, including capital goods and defence equipment.
- (3) More investment in Britain.

Agreed in principle to agreement on technological cooperation, but must be specific.

Opportunity for friendly talk with Chairman of Nissan.

China

Talks with Zhao Ziyang and Deng Xiaoping.

On international issues, China's main preoccupation is still that West should provide a counter-force to Russia.

Also concerned with Taiwan: having compromised with US, want to see US restraining arms sales.

Hong Kong - China stated hard position on regaining sovereignty, over whole area in 1997. We stood firm on treaties, and told them that Hong Kong would only survive as financial centre under British administration.

Terms of communique - both sides stated positions and agreed to talks with common objective of maintaining Hong Kong's prosperity and stability.

/ Talks

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- 2 -

Talks will be tough and will take time. Main problem is holding Hong Kong confidence in the meantime.

Hong Kong

Outcome of talks in China main preoccupation. Understandably much concern, and some money has started to move.

One or two bilateral issues in Hong Kong which will take up directly with colleagues; and will discuss with Foreign Secretary how to carry forward talks with Chinese on Hong Kong.

Home Secretary



LM

10 DOWNING STREET

From the Private Secretary

30 September, 1982

The Prime Minister has asked me to thank you for your kind letter of 29 September. She much enjoyed her visit to Japan and was grateful to you for writing as you did.

A.L. COLES

His Excellency Mr Tsuyoshi Hirahara

505



10 DOWNING STREET

Prime Minute

You may like to read Sir Hugh
Cortazzi's assessment of your
visit.

A. S. C. $\frac{30}{9}$

MT.

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FM TOKYO 290710Z SEP 82

TO IMMEDIATE F C O

TELEGRAM NO 583 OF 29 SEPTEMBER

RFI PRIORITY WASHINGTON AND UKREP BRUSSELS

PRIME MINISTER'S VISIT TO JAPAN

Mr Cress
to note
ms
JF
29/9

1. THE PRIME MINISTER, ACCOMPANIED BY MR THATCHER, PAID AN OFFICIAL VISIT TO JAPAN FROM 17 TO 22 SEPTEMBER AS THE FIRST STAGE OF A FAR EASTERN TOUR. ORGANISATIONALLY THE JAPANESE HAD GONE TO A LOT OF TROUBLE TO PREPARE THE VISIT, WHICH PASSED OFF IMMACULATLY. FROM A SUBSTANTIVE POINT OF VIEW THEY WERE CONCERNED THAT CONTINUING PROBLEMS IN TRADING RELATIONS AND JAPAN'S COMPARATIVELY UNHELPFUL ATTITUDE OVER THE FALKLANDS CRISIS MIGHT HAVE SOURED THE ATMOSPHERE IN THE RUN UP TO THE VISIT AND COULD HAVE LED TO RECRIMINATIONS DURING IT. IN THE EVENT THE DISCUSSIONS WERE WARM, CONSTRUCTIVE AND POTENTIALLY USEFUL.

2. BUT THE WARMTH CLOTHED A CLEAR AND TOUGH MESSAGE. THE WORLD RECESSION AND HIGH UNEMPLOYMENT IN THE UK MEANT RISING PRESSURES FOR PROTECTIONISM WHICH WOULD BE HARD TO RESIST UNLESS THERE WERE

(A) MORE IMPORTS INTO JAPAN OF BRITISH MANUFACTURED GOODS (BAE 146, SEARCH-WATER RADAR, HARRIER ETC WERE SPECIFICALLY MENTIONED)

(B) SOLUTIONS ON AN INDUSTRY TO INDUSTRY BASIS TO PROBLEMS WHERE OUR INDUSTRIES MIGHT BE HARD HIT (MACHINE TOOLS, FORKLIFT TRUCKS):

(C) MUCH MORE JAPANESE INVESTMENT IN THE UK (PARTICULAR EMPHASIS WAS PLACED ON THE NISSAN PROJECT BUT NOT DECISIONS WERE EXPECTED OR TAKEN):

(D) MORE EFFORTS TO STIMULATE INDUSTRIAL COLLABORATION.

3. THE PRIME MINISTER ALSO HAD A MORE GENERAL MESSAGE: JAPAN MUST SHOULDER MORE OF THE RESPONSIBILITIES OF HER ECONOMIC SUCCESS.

4. ALL OF THESE MESSAGES WERE RECEIVED LOUD AND CLEAR NOT ONLY BY MR SUZUKI BUT BY THE JAPANESE MINISTERS OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE AND INDUSTRY WITH WHOM THE PRIME MINISTER ALSO HAD DISCUSSIONS. THEIR RESPONSES WERE FOR THE MOST PART GUARDED WITHOUT APPEARING NEGATIVE.

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/ SUZUKI

SUZUKI WAS QUICK TO EMPHASISE THE IMPORTANCE OF THE FREE TRADING SYSTEM BUT HAD NOTHING TO SAY ABOUT THE PROSPECT OF A DOLLAR 17 TO 20 BILLION SURPLUS ON VISIBLE TRADE NEXT YEAR. NONE OF THE JAPANESE MINISTERS SUGGESTED THAT THEY WERE PREPARED TO EMBARK ON A POLICY OF STIMULATING DOMESTIC DEMAND TO ANY NOTICEABLE EXTENT, PREFERRING TO CONCENTRATE ON THE IMPORTANCE OF REDUCING THE BUDGET DEFICIT AND PUBLIC EXPENDITURE: BOTH POINTS STRUCK AN ECHOING CHORD WITH THE PRIME MINISTER. MR SUZUKI'S RECIPE FOR REVITALISING THE WORLD ECONOMY WAS MUCH THE SAME AS AT VERSAILLES: THE PROMOTION OF JOINT RESEARCH AND DEVELOPMENT IN ADVANCED TECHNOLOGY (HE ENVISAGED JOINT EFFORTS ON A BILATERAL BASIS BETWEEN JAPAN AND THE UK, GERMANY AND THE UNITED STATES), THE PROMOTION OF INVESTMENT, TECHNOLOGICAL ADVANCE AND INDUSTRIAL COLLABORATION IN THIRD COUNTRIES, AND MEASURES TO EASE THE PROBLEMS OF DEVELOPING COUNTRIES WITH ACCUMULATED DEBT NOW STANDING AT DOLLARS 500 BILLION AND ANNUAL REPAYMENTS OF DOLLARS 100 BILLION. BOTH SIDES AGREED THAT THIS LATTER POINT COUNTRIES IN DIFFICULTIES SHOULD SUBMIT THEMSELVES TO IMF DISCIPLINES.

5. ON BILATERAL MATTERS THE JAPANESE DESCRIBED THE MEASURES WHICH THE GOVERNMENT HAD TAKEN IN RECENT MONTHS TO EASE THE IMPORT REGIME: AGREED THAT INTER-INDUSTRY CONTACTS WERE VALUABLE IN DEALING WITH PARTICULAR SECTORAL PROBLEMS AND THEREFORE WELCOMED A MISSION FROM THE BRITISH MACHINE TOOL INDUSTRY NEXT MONTH: AND ATTACHED IMPORTANCE TO THE UK AS A LOCATION FOR FURTHER JAPANESE INVESTMENT WHILE MAKING IT CLEAR THAT THIS WAS ESSENTIALLY A MATTER FOR COMMERCIAL DECISION.

6. ON INDUSTRIAL COLLABORATION IN THE FORM OF TECHNICAL TIE UPS AND JOINT VENTURES THE JAPANESE RESPONSE WAS SOMEWHAT LESS POSITIVE THAN HAD BEEN EXPECTED PARTICULARLY IN VIEW OF THE POLITICAL CAPITAL WHICH THE JAPANESE AND MR SUZUKI IN PARTICULAR HAVE INVESTED IN THIS FIELD IN RECENT MONTHS AS A MEANS OF EASING TRADE PROBLEMS. SUZUKI'S BRIEF WAS QUERULOUS AND DEFENSIVE, CONCENTRATING TOO MUCH ON APPORTIONING BLAME FOR THE SLOW PROGRESS SO FAR.

7. THE PRIME MINISTER'S INDUSTRIAL VISITS, TO TSUKUBA SCIENCE CITY, THE NUCLEAR POWER STATIONS AT TOKAI-MURA AND THE FANUC ROBOTICS FACTORY WERE I THINK WELL WORTHWHILE NOT ONLY IN DEMONSTRATING THE STRONG BRITISH CONNECTION WITH JAPAN IN THE NUCLEAR FIELD BUT IN SHOWING THE PRIME MINISTER FIELDS OF RESEARCH AND PRODUCTION IN WHICH THE JAPANESE PERFORMANCE IS PARTICULARLY GOOD. MRS THATCHER WAS UNSTINTING IN HER PRAISE FOR JAPANESE EFFICIENCY AND THEIR ABILITY TO APPLY THE RESULTS OF RESEARCH. BUT SHE ALSO TOOK EVERY OPPORTUNITY TO REMIND THE JAPANESE OF BRITAIN'S LONG AND DISTINGUISHED RECORD IN RESEARCH IN MANY FIELDS AND OF HER OWN DETERMINATION THAT THE UK SHOULD MATCH JAPAN IN APPLYING THE RESULTS OF THIS RESEARCH. AT THE END OF THE

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/ VISIT

VISIT THE PRIME MINISTER ANNOUNCED THAT THE UK WOULD PARTICIPATE FULLY IN THE TSUKUBA '85 EXPOSITION. BOTH PRIME MINISTER'S HAD PREVIOUSLY AGREED THAT THEY ATTACHED IMPORTANCE TO CONCLUDING A TECHNOLOGY AGREEMENT (IN THE JAPANESE VIEW A SCIENCE AND TECHNOLOGY AGREEMENT) PROVIDED THAT IT CONTAINED MORE THAN GENERALITIES AND LED TO TANGIBLE RESULTS.

8. ON POLITICAL MATTERS BOTH PRIME MINISTERS AGREED THAT THEY SHOULD TRY TO MEET MORE OFTEN AND MRS THATCHER INVITED MR SUZUKI TO VISIT LONDON AS AN OFFICIAL GUEST AT A TIME AS YET UNSPECIFIED. IT WAS IMPORTANT TO GIVE AN IMPETUS TO CONTACT ON POLITICAL MATTERS AT BOTH MINISTERIAL AND OFFICIAL LEVEL. MR SUZUKI REFERRED TO BRITAIN AS THE '' AXIS OF EUROPE''. ON THE FALKLANDS THE PRIME MINISTER REFERRED IN PASSING TO A MISUNDERSTANDING BETWEEN JAPAN AND BRITAIN IN THE PAST BUT SAID SHE WISHED NOW TO CONCENTRATE ON THE FUTURE. SHE PUT THE JAPANESE CLEARLY ON NOTICE THAT BRITAIN WOULD NOT FIND IT POSSIBLE TO NEGOTIATE WITH ARGENTINA OVER SOVEREIGNTY AND WOULD RESIST PRESSURE AT THE UN TO DO SO. ON HONG KONG MR SUZUKI MADE THE RIGHT NOISES IN RECOGNISING THAT THE ISSUE WAS PRIMARILY A BILATERAL ONE BETWEEN THE BRITISH AND CHINESE GOVERNMENTS WHILE EMPHASISING THAT JAPAN'S ECONOMIC RELATIONS WITH HONG KONG MEANT THAT SHE WAS DEEPLY INTERESTED IN ITS FUTURE STABILITY AND PROSPERITY.

9. COVERAGE OF THE VISIT BY THE JAPANESE MEDIA WAS EXTENSIVE AND ALMOST ENTIRELY LAUDATORY. IN PARTICULAR THE PRIME MINISTER'S 45 MINUTE INTERVIEW ON NHK MADE A MAJOR IMPACT ON JAPANESE IN ALMOST ALL WALKS OF LIFE: ''THAT IS HOW A PRIME MINISTER SHOULD BE''.

10. MRS THATCHER WAS ONLY THE SECOND BRITISH PRIME MINISTER EVER TO MAKE A BILATERAL VISIT TO JAPAN: THE OCCASION WAS THEREFORE IMPORTANT HISTORICALLY. HER MESSAGE TO THE JAPANESE ON ECONOMIC PROBLEMS WERE BROUGHT TO THEM WITH THE UNIQUE FORCE THAT ONLY THE PRIME MINISTER CAN MUSTER. THESE ARE SUBSTANTIAL PLUSSES. HOWEVER IT WILL REQUIRE A SUBSTANTIAL EXTRA EFFORT TO GET THE JAPANESE TO DELIVER. THE PROBLEMS ARE ALSO COMPLICATED BY THE WORLD RECESSION AND THE FACT THAT MUCH OF WHAT WE ARE SEEKING RESTS WITH THE PRIVATE SECTOR RATHER THAN THE JAPANESE GOVERNMENT.

CORTAZZI

FCO/WHITEHALL
FED

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EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X 0BA

29th September 1982

Dear Prime Minister,

I am writing to present my compliments upon your return from your visit to Japan and other countries in Asia.

Having learned of your wish to go straight to No 10 Downing Street as soon as your aircraft touches down this evening, I shall not be at the Airport to greet you and Mr. Thatcher personally.

I sincerely hope that you will have soon recovered from the after-effects of your journey.

Yours sincerely,

Ts. Hirahara

Tsuyoshi Hirahara
Ambassador

The Right Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
10 Downing Street,
London, S.W.1.

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X 0BA

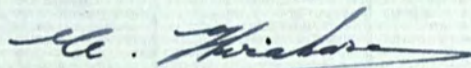
28th September 1982

Dear Prime Minister,

I am sending herewith an album of photographs which I hope you will like to keep as a memento of your recent visit to Japan.

I took the photographs with my own camera on the Saturday and Sunday of your visit, the 18th and 19th of September. They show some of the less formal moments of the trip which were not recorded by the official cameraman.

Yours sincerely,



Tsuyoshi Hirahara
Ambassador

The Right Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
10, Downing Street,
London, S.W.1.

AKIO MORITA
CHAIRMAN
CHIEF EXECUTIVE OFFICER

SONY
SONY CORPORATION

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September 25, 1982

The Rt. Hon. Margaret Thatcher, M. P.
10 Downing Street
United Kingdom

Prime Minister

To see.

AM 20/9

Dear Prime Minister

It was a great pleasure to have had the opportunity to meet you during your visit to Japan. I especially enjoyed our conversation that took place at the British Embassy.

I followed with deep interest the events and meetings between you and Japanese officials. I felt that the foundation for better understanding between our two island nations was strengthened and I sincerely hope for continued development in this direction.

We very much enjoyed Mr. Thatcher's visit to our company. I have just received kind words of thanks from him, for which I am grateful.

Please accept my sincere wishes for every success in all your future activities.

Yours very sincerely,

Akio Morita

AM:tk

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TO IMMEDIATE F C O
TELEGRAM NO 571 OF 21 SEPTEMBER

FOR NO 10 PRESS OFFICE AND NEWS DEPT

PRIME MINISTER'S VISIT TO JAPAN

1. FOLLOWING IS TRANSCRIPT OF QUESTION AND ANSWER SESSION
AT PRIME MINISTER'S PRESS CONFERENCE AT JAPAN PRESS CLUB ON
21 SEPTEMBER:

QUESTION: PRIME MINISTER, I WOULD LIKE TO RAISE THE FOLLOWING TWO
QUESTIONS. THE FIRST QUESTION CONCERNS THE RELATIONSHIP
WITH THE SOVIET UNION. IN YOUR PRESENTATION YOU REFERRED
TO SOVIET THREAT. ON ONE HAND, THE UNITED STATES ARE TRYING
TO ENFORCE ECONOMIC SANCTIONS AGAINST THE SOVIET UNION. THAT
HAS A RELEVANCE TO THE WESTERN COUNTRIES EFFORTS TO EXPORT
PLANT AND EQUIPMENT TO THE SOVIET UNION. WE ARE CAUGHT IN
THE TWO CONFLICTING CONSIDERATIONS BETWEEN ECONOMIC COOPERATION
AND MILITARY THREAT. IN WHAT WAY DO YOU THINK WE SHOULD
ESTABLISH THE RELATIONSHIP WITH THE SOVIET UNION ?

PM. LET'S DEAL WITH QUESTION OF THE SANCTIONS ON THE SIBERIAN
PIPELINE BECAUSE THAT'S ALL THE SANCTIONS WE HAVE THAT WE
DISAGREE ABOUT AT THE MOMENT. WE AGREE THAT WE DO NOT SELL
HIGHLY SENSITIVE DEFENCE TECHNOLOGY TO THE SOVIET UNION NOR
TECHNOLOGY THAT COULD BE USED FOR DEFENCE PURPOSES. NO
DIFFICULTY ABOUT THAT. WE HAVE A MUTUAL ARRANGEMENT INVOLVING
SEVERAL COUNTRIES THAT WE ARE AGREED ABOUT. WE ALSO - MOST
COUNTRIES INCLUDING EUROPE AND THE UNITED STATES, CONDUCT
A GOOD DEAL OF TRADE WITH THE SOVIET UNION. FOR THE UNITED
STATES, IT IS MOSTLY TRADE IN WHEAT MUCH LESS ON MANUFACTURING.
THAT TRADE IN WHEAT CONTINUES. EUROPE STILL CONTINUES TO SELL
FOOD TO THE SOVIET UNION, SOME OF IT HIGHLY SUBSIDISED AND I
MUST TELL YOU THAT I DO NOT LIKE SUBSIDISING THOSE FOOD EXPORTS.
WE ALSO HAVE TRADE WITH THE SOVIET UNION THAT IS MUTUALLY
BENEFICIAL TO US BOTH. WHAT I AM POINTING OUT IS THAT THE
AREA OF AGREEMENT IS MUCH GREATER THAN THE AREA OF DISAGREEMENT.
NOW THE UNITED STATES FELT EXTREMELY STRONGLY ABOUT
THE ATTITUDES OF THE SOVIET UNION, ESPECIALLY TOWARDS POLAND.
WE AGREE THAT WE DISLIKE A COMMUNIST SYSTEM ON THE BASIS THAT
IT DENIES FREEDOM AND DIGNITY TO PEOPLE. WE ARE AGREED ABOUT
THAT. WE WERE HAVING TO DEMONSTRATE THAT WE FELT PARTICULARLY
STRONGLY, AS WE ALL DO, WHEN THE FIRST SIGN OF FREEDOM CHANGED IN
POLAND. THE COMMUNIST SYSTEM CAN'T STAND FREEDOM AND THEY
TRIED TO STOP IT. WELL, WE CHOSE TO DO IT BY STOPPING
EXISTING COMMERCIAL CONTRACTS TO DEVELOP THE SIBERIAN GAS
PIPELINE. HAD THE UNITED STATES SAID AT THE BEGINNING THAT
THEY WOULD ATTEMPT TO STOP ANY CONTRACTS MADE WITH THE SOVIET
UNION ON THEIR PIPELINE, I DON'T THINK ANY OF US WOULD HAVE
ATTEMPTED TO MAKE ARRANGEMENTS WITH THE SOVIET UNION BECAUSE

/ MOST

MOST OF US HAVE LICENCING AGREEMENTS WITH THE UNITED STATES FOR VERY IMPORTANT PRODUCTS. IT WOULD HAVE BEEN REASONABLE AND UNDERSTANDABLE TO HAVE SAID THAT BEFORE IT STARTED. IT WAS NOT REASONABLE SUDDENLY TO STOP A COMMERCIAL CONTRACT WHEN IT HAS HONOURABLY AND FREELY BEEN MADE AND ENTERED INTO. THE ONLY TIME WHEN YOU DO STOP A COMMERCIAL CONTRACT IS IF YOU GET THE OUTBREAK OF HOSTILITIES THEN OBVIOUSLY THERE'S A REASON FOR DOING IT. IN THE ABSENCE OF ANY SUCH GREAT EVENT, IT IS NOT REASONABLE SUDDENLY TO CUT UP COMMERCIAL CONTRACTS - IT RENDERS COMPANIES LIABLE TO ENORMOUS DAMAGES IN THE LAW COURTS, IT MAKES THEM LAY OFF PEOPLE WHO BECOME UNEMPLOYED WHO OTHERWISE HAD JOBS AND THEREFORE MOST OF US WHO HAVE HAD AN ORDER FROM THE UNITED STATES TO STOP THAT WORK HAVE SAID NO. WE MADE THAT CONTRACT AND WE'LL CARRY OUT. I THINK HAD WE AGREED WITH THE UNITED STATES AT VERSAILLES ON THE REDUCTION OF CREDITS TO THE SOVIET BLOC, WAY BELOW THE CREDITS THEY GET NOW, (I'M TALKING ABOUT CREDITS FOR EXPORT TO THE SOVIET BLOC) THEN THE UNITED STATES WOULD NOT HAVE ACTED IN THIS WAY. THEY DID NOT IN FACT GET THE AGREEMENT THEY SOUGHT AND THEREFORE THIS ARRANGEMENT HAD BEEN MADE AGAINST US. I ONLY SAY THIS TO YOU, THIS DIFFERENCE BETWEEN US - THERE'S ONE OTHER ONE ON STEEL: THEY'RE ALREADY ATTEMPTING TO PROTECT THEIR OWN STEEL INDUSTRY - BUT THESE TWO DIFFERENCES BETWEEN US ARE SMALL COMPARED WITH THE ENORMOUS AND OVERRIDING THINGS WHICH UNITE US, WHICH IS AN ALLIANCE AND DEFENCE OF A WAY OF LIFE IN WHICH WE BELIEVE. I'M SORRY THAT ANSWER'S LONG BUT IT'S NECESSARY TO GET IT LONG TO BE CLEAR: IT WOULD HAVE BEEN EVEN LONGER IN JAPANESE.

QUESTION: THE SECOND QUESTION RAISED CONCERNS CHINA. CHINA IS A COUNTRY WHICH OBSERVES GREAT MOVEMENTS NOT ONLY OF ASIA BUT ALSO ON THE WORLDWIDE SITUATION. WE UNDERSTAND, PRIME MINISTER, THAT YOU WILL BE PRESENT IN CHINA AFTER THIS, SO IN THIS CONNECTION WE WOULD LIKE TO ASK WHAT SORT OF FUTURE RELATIONSHIP ARE YOU INTENDING TO ESTABLISH WITH CHINA ?

PM: WELL, CHINA IS ALREADY AND WILL BE AN INCREASINGLY POWERFUL COUNTRY IN THE WORLD. IT'S THE LARGEST ONE, IT'S GOT A BILLION PEOPLE. OBVIOUSLY, EVERY IMPORTANT POLITICAL MATTER WE SHOULD CONSULT WITH CHINA BECAUSE AFTER TREMENDOUS STRENGTH AND POWER SHE ALSO HAS SPECIAL INFLUENCE OVER THE WHOLE SOUTH EAST ASIAN PROBLEM AND ESPECIALLY OF COURSE IN THE VIETNAM/CAMBODIA OUTLOOK. ONE ALSO WISHES TO KNOW, OBVIOUSLY, THE RELATIONSHIP BETWEEN CHINA AND THE SOVIET UNION, BETWEEN CHINA AND THE UNITED STATES, AND I OF COURSE WILL HAVE A SPECIAL MATTER TO DISCUSS WITH THE CHINESE LEADERS WHICH IS HONG KONG. I THINK THAT WILL KEEP US GOING FOR QUITE A TIME ON THOSE THINGS.

QUESTION: FIRST OF ALL I WOULD LIKE TO SAY THAT YOU HAVE BEEN WORKING DAY AND NIGHT TO REVITALISE THE UK ECONOMY - YOU HAVE BEEN WORKING MUCH HARDER THAN, SHALL I SAY, THE JAPANESE. NOW, THE PRIME PURPOSE OF YOUR VISIT TO JAPAN THIS TIME IS TO LOOK INTO THE POSSIBILITY OF INDUSTRIAL COLLABORATION BETWEEN INDUSTRIES IN THE UNITED KINGDOM

AND THOSE IN JAPAN IN ORDER TO REALISE THE REVITALISATION AND RECOVERY OF THE UNITED KINGDOM. IN THIS CONNECTION, I UNDERSTAND YOU HAVE MET WITH OUR PRIME MINISTER AND ALSO THE MINISTER IN CHARGE OF INTERNATIONAL TRADE AND INDUSTRY, MR ABE, AND ALSO OTHER LEADERS IN ECONOMIC AND BUSINESS CIRCLES IN JAPAN. AS A RESULT OF YOUR MEETINGS WITH THESE PEOPLE, WHAT SORT OF OUTLOOK OR PERSPECTIVE DO YOU HAVE AS REGARDS UK/JAPAN INDUSTRIAL COLLABORATION. DO YOU STILL BELIEVE IN SUCH COLLABORATION ? IN THIS CONNECTION, WHAT SORT OF OBSTACLES REMAIN ?

PM: THANK YOU FOR YOUR CHARMING COMPLIMENT: NEVERTHELESS MY ANSWER WILL BE BRIEF. WITH REGARD TO INDUSTRIAL COLLABORATIVE PROJECTS, THERE'S SCOPE FOR A GREAT DEAL MORE. THE DEPARTMENT OF INDUSTRY IN BRITAIN AND THE DEPARTMENT OF INDUSTRY HERE ARE BOTH WORKING ON IT IN CONJUNCTION WITH PRIVATE INDUSTRY. WE SUGGESTED SOME EIGHTEEN POSSIBLE COLLABORATIVE PROJECTS LAST MAY AND THE JAPANESE INDUSTRY HAS ALREADY PUT UP THREE. WE ARE BOTH LOOKING AT THEM. JAPAN HAS ALREADY APPROVED SOME OF THE EIGHTEEN, (QUITE A NUMBER OF THEM) AND THEY ARE LOOKING AT THE REST. WE HAVE REPLIED ON THE THREE AND ARE WAITING FOR A REPLY BACK. THE POINT I AM MAKING IS THAT THERE IS A GOOD DEAL ACTIVITY WITH REGARD TO COLLABORATION. WE BOTH REALISE IT WOULD BE A WAY AHEAD, BOTH FOR JAPAN AND BRITAIN. SECONDLY, INVESTMENT FROM JAPAN INTO BRITAIN - LET'S DEAL WITH THE FIRST ONE FIRST. CAN I JUST MAKE ONE POINT CLEAR: WE SUGGESTED EIGHTEEN AND JAPAN SUGGESTED THREE. THAT'S JUST TO SHOW THAT WE ARE VERY ACTIVE. ONE OF THE WAYS OF IMPROVING THE ACTUAL BALANCE OF TRADE BETWEEN US IS TO HAVE MORE INVESTMENT INTO BRITAIN. I INDICATED THAT THERE ARE 24 JAPANESE COMPANIES THAT HAVE INVESTED IN BRITAIN. THEY ARE PERFORMING EXCELLENTLY, THE MANAGEMENT IS FIRST CLASS, THE INDUSTRIAL RELATIONS GOOD. WE'D LIKE SOME MORE. WE ARE USED OURSELVES TO INVESTING ON OTHER COUNTRIES, WE HAD TO IN THE PAST TO KEEP OUR TRADE IN FORMER COLONIAL TERRITORIES. THE UNITED STATES IS USED TO INVESTING OVERSEAS - WE HAVE A THOUSAND PROJECTS OF INVESTMENT FROM THE UNITED STATES IN BRITAIN. GERMANY HAD INVESTED 170 PROJECTS. JAPAN HAS 24. IT WOULD OBVIOUSLY BE AN IMMENSE HELP BOTH TO OUR UNEMPLOYMENT POSITION AND TO STOP CALLS FOR INCREASING PROTECTIONISM IF SOME OF THE THINGS WHICH YOU EXPORT TO US WERE ACTUALLY MANUFACTURED IN BRITAIN. THEY WILL STILL BE JAPANESE PRODUCTS, THEY WILL BE MANUFACTURED IN BRITAIN AND WE THEREFORE WOULD HAVE THE JOBS. IT IS A CLASSIC WAY OF KEEPING TRADE AND RESISTING CALLS FOR PROTECTIONISM AND I BELIEVE THAT WE'VE GOT THAT POINT ACROSS TOO. WHERE YOU'VE GOT A TOTAL IMBALANCE IN TRADE BETWEEN OURSELVES AND JAPAN WHICH WE HAVE IN MANUFACTURED GOODS, THAT IMBALANCE IS SO LARGE IT'S NOT GOING TO BE PUT RIGHT BY OUR BEING ABLE TO EXPORT MORE CAPITAL GOODS TO JAPAN WHICH IS WHY I CONCENTRATED ON HOW SUCCESSFUL WE ARE WITH THE SALE OF SOME CAPITAL GOODS IN OTHER COUNTRIES IF NOT IN JAPAN. BRITISH AREOSPACE 146 AIRCRAFT IS AN EXAMPLE. WE DO ALSO VERTICAL TAKEOFF AIRCRAFT, VERY GOOD, THAT HAS BEEN RECENTLY TESTED IN THE FALKLANDS, ABSOLUTELY SUPERB AND SO ON.

PM: I'LL HAVE TO ANSWER MORE BRIEFLY. I TEND TO GIVE FULL REASONS FOR EVERY ANSWER - SOMETIME YOU'LL JUST HAVE TO TAKE MY WORD FOR IT.

QUESTION: SORRY PRIME MINISTER THATCHER, BACK TO THE PIPELINE. YOU STATED THAT YOUR GOVERNMENT SUPPORTS THE CONTRACT WITH THE SOVIET UNION FOR THE CONSTRUCTION OF ITS GAS PIPELINE BECAUSE OF CONTRACTS (INDECIPHERABLE) OF THE U S EMBARGO. WHAT IS YOUR POSITION ON THE SUPPLY OF EQUIPMENT, TECHNOLOGY AND CREDIT FOR PIPELINES REPORTEDLY IN THE PLANNING STAGE ? WOULD YOU JOIN THE U S PLAN TO BOYCOTT INVOLVEMENT IN SUCH A PROJECT ?

PM: WITHIN THE LIMITS I HAVE ALREADY INDICATED, WITH OUR VERY SENSITIVE TECHNOLOGY WE ALREADY HAVE AN ARRANGEMENT SO THAT IS COVERED BY THE PARTICULAR COMMITTEE WHICH DEALS WITH THOSE THINGS. INsofar AS YOU HAVE TO CONTRACT FOR SOMETHING WITH THE SOVIET UNION WHICH AMERICA CLEARLY SAYS THAT SHE WOULD BE AGAINST AND WOULD STOP BY LICENSING AGREEMENTS WITH HER SUBSIDIARIES FOR THE EXPORT OF A VITAL PART, THERE'S NO POINT IN GOING FOR IT. BEYOND THAT, WE ARE FREE TO CONTRACT EXCEPT AS WE FREELY AGREE AMONG ONE OTHER, ALL OF US HAVING BEEN CONSULTED IN THE PROCESS AND HAVING AGREED TO AGREE

QUESTION: (INDECIPHERABLE)

PM: WHATEVER PIPELINE IT IS, IT FALLS WITHIN THE ANSWER I HAVE GIVEN. WE ARE NOT EXCLUDED FROM APPLYING FOR ANY CONTRACT, IF IT IS IN OUR MUTUAL INTEREST TO DO IT, IF WE CAN IN FACT CARRY OUT THAT CONTRACT OUT OF GOODS WHICH WE MANUFACTURE OR TO WHICH WE HAVE FREE ACCESS. ONE OF THE CONSEQUENCES OF WHAT THE UNITED STATES HAS DONE MAY WELL BE THAT ONE NO LONGER INCORPORATES AMERICAN TECHNOLOGY IN OUR EXPORTS AS WE HAVE DONE PREVIOUSLY BECAUSE IT MIGHT SUDDENLY BE CUT OFF. BUT BEYOND THAT, WE CAN AGREE TOGETHER WHAT WE SHALL NOT APPLY FOR AND STICK TO IT BUT THAT HAS TO BE AN AGREEMENT REACHED BY CONSULTATION AND NOT IMPOSED. WE ARE EACH AND EVERY ONE OF US IN OECD, IN THE SUMMIT OF 7: FREE COUNTRIES. THAT MEANS WE CAN FREELY AGREE WITH OTHER COUNTRIES NOT TO DO CERTAIN THINGS BUT WE DON'T LIKE THING BEING IMPOSED UPON US.

QUESTION: YOU MENTIONED THE INVESTMENT OF JAPANESE COMPANIES. COULD YOU GIVE US AN ASSESSMENT OF THE CHANCES OF NISSAN STILL COMING TO BRITAIN AFTER YOUR TALK WITH KAWAMATA OF NISSAN ? SECONDLY, YOU MENTIONED YOUR FORTHCOMING TALKS WITH CHINESE LEADERS ON HONG KONG. COULD YOU GIVE US SOME EXPLANATION OF YOUR HOPES OR GAINS WITH WHICH YOU ARE GOING INTO THESE TALKS ? AND THIRDLY, YOU HAVE MENTIONED IN YOUR SPEECH THAT BRITAIN HAS MADE A LOT OF EFFORTS, TOGETHER WITH OTHER EUROPEAN COUNTRIES, TO GET INTO THE JAPANESE MARKET BUT THEY HAVE EXPERIENCED DELAY AND ALSO THE LANGUAGE PROCESS CAN BE VERY TROUBLESOME. DO YOU THINK IT IS NECESSARY TO TRAIN PEOPLE TO LEARN THE LANGUAGE OR DO

YOU FEEL, LIKE THE BRITISH CHAMBER OF COMMERCE, THAT IT IS NOT NECESSARY TO LEARN THE LANGUAGE ?

PM: THREE POINTS ON NISSAN, HONG KONG AND LANGUAGE. ON NISSAN, MY TALKS WITH THE CHAIRMAN MUST REMAIN CONFIDENTIAL. I REALISE THIS IS RARE TODAY BUT IT SOMETIMES IS NECESSARY. I MAKE IT VERY CLEAR THAT NISSAN WOULD BE VERY VERY WELCOME IN BRITAIN AND IF THE BOARD DECIDES TO INVEST IN EUROPE, THEN THERE'S A WARM WELCOME IN BRITAIN AS I HAVE INDICATED MANY TIMES. ON HONG KONG, WE HOPE WE MAKE THE KIND OF ARRANGEMENTS THAT WILL KEEP THE STABILITY AND PROSPERITY OF HONG KONG. THAT HAS BEEN AN ENORMOUS ADVANTAGE TO CHINA FROM WHICH SHE GETS SOME FORTY PER CENT OF HER FOREIGN CURRENCY AND IT IS VERY WELCOME AND HAS BEEN AN ENORMOUS ADVANTAGE TO THE PEOPLE WHO LIVE IN HONG KONG, OF WHOM THERE ARE NOW SOME FIVE MILLION. THEY HAVE DONE ALL THIS BY THEIR INDUSTRY AND HONG KONG IS NOW THE THIRD BIGGEST FINANCIAL CENTRE IN THE WORLD. I THINK WE WANT TO KEEP THE STABILITY AND PROSPERITY OF HONG KONG. ON LANGUAGE, I THINK IT WOULD BE BETTER IF MORE OF US WERE MORE EXPERT IN JAPANESE. YOU VERY KINDLY ASKED THE QUESTION IN ENGLISH - YOU MAY ALSO BE AN EXPERT IN JAPANESE. WE SHOULD. BUT YOU KNOW WE ARE A VERY SHY PEOPLE AND WE DON'T HAVE MUCH OPPORTUNITY TO TALKS. THE AMERICANS SPEAK ENGLISH AND HAS MEANT THAT WE HAVEN'T HAD TO LEARN MANY FOREIGN LANGUAGES. THE BRITISH AMBASSADOR HAS ASKED ME TO SAY THAT THE BRITISH EMBASSY HAS MORE JAPANESE SPEAKERS THAN ANY OTHER EMBASSY WITH THE EXCEPTION OF THE AMERICAN EMBASSY THOUGH THE AMERICAN EMBASSY HAS VASTLY MORE STAFF THAN WE DO.

QUESTION: PRIME MINISTER YOU DESCRIBED YOUR IMPRESSION OF YOUR VISIT TO JAPAN LAST TIME BY THE WORD 'DEDICATION'. NOW THIS TIME WHAT WORD WOULD YOU CHOOSE TO DESCRIBE YOUR IMPRESSION OF YOUR VISIT TO JAPAN ?

PM: WELL, IT'S BEEN VERY FRIENDLY, WE'VE HAD DISCUSSIONS WHICH HAVE MADE US UNDERSTAND ONE ANOTHER'S VIEWPOINTS AND I THINK AS A RESULT OF THIS VISIT, WE HAVE MORE CHANCES OF STOPPING PROTECTIONISM DEVELOPING BECAUSE I HOPE ONE'S GOT THE MESSAGE ACROSS THAT IT CAN BE STOPPED, BY THINGS LIKE INWARD INVESTMENT, MY MAKING ARRANGEMENTS BETWEEN INDUSTRIES, BY COLLABORATIVE VENTURES AND IN FACT BY JAPAN TAKING MORE MANUFACTURES INTO HER OWN MARKET. NOW IF YOU BELIEVE IN THE GLOBAL TRADING SYSTEM, AND WE AS EXPORTERS DO, YOU'VE GOT TO HAVE A MUCH BETTER BALANCE OF TRADE THAN WE'VE GOT NOW AND THE WAY TO DO IT PART OF THE WAY IS FOR JAPAN TO TAKE IN MORE MANUFACTURERS, AND ALSO TO HAVE A LOOK AT OTHER PEOPLE'S CAPITAL GOODS. IF WE'VE GOT A BETTER UNDERSTANDING THAT'S VERY GOOD. I STILL STICK ABSOLUTELY TO THE WORD 'DEDICATION' FROM WHAT I'VE SEEN IN INDUSTRY BY THE JAPANESE PEOPLE. IT IS MOST IMPRESSIVE AND THOSE OF YOU WHO CAME DOWN TO THE FANUC ROBOT FACTORY WILL HAVE SEEN SOMETHING THAT YOU COULD NOT SEE ELSEWHERE IN THE WORLD. IT'S VERY EXCITING. WE HAVE TO PUT ON OUR THINKING CAPS AS TO WHERE WE'RE GOING TO GET JOBS IN GENERAL FOR THE FUTURE.

QUESTION: (INDECIPHERABLE)

PM: I THINK THAT ATTITUDES TO INDUSTRY, PARTICULARLY BY THOSE WHO ARE IN UNIVERSITIES, ARE CHANGING. I WOULD AGREE WITH THE FUNDAMENTAL PROPOSITION THAT THERE'S NOT BEEN NEARLY A CLOSE ENOUGH RELATIONSHIP BETWEEN OUR DISTINGUISHED SCIENTISTS IN THE UNIVERSITIES AND INDUSTRY. THAT IS CHANGING AND MANY OF THEM ARE GETTING MUCH MORE COSELY INVOLVED (INDECIPHERABLE).

I ALSO THINK THAT TOO FEW OF THE FIRST-CLASS SCIENCE GRADUATES FROM UNIVERSITY HAVE GONE DIRECTLY INTO INDUSTRY. IF THEY GO EITHER INTO RESEARCH INSTITUTES OR STATE-OWNED RESEARCH SOMEHOW, THEN THAT WOULD MEAN A LOSS. IN UNIVERSITIES, YOU WILL FIND THAT JAPAN HAS CONCENTRATED FAR MORE ON THE APPLICATION OF SCIENCES, WHEREAS WE HAVE CONCENTRATED ON THE PURE SCIENCES. FOR EXAMPLE, JAPAN HAS FIVE TIMES AS MANY GRADUATE ENGINEERS AS BRITAIN HAS. NOW, EVEN TAKING INTO ACCOUNT THAT THE POPULATION'S ABOUT TWICE AS BIG, YOU CAN STILL SEE THERE'S MUCH MORE EMPHASIS ON THE APPLICATION SCIENCES THAN ON THE PURE SCIENCES AND THAT TOO WE NEED TO REVISE. I DON'T THINK I WOULD SAY IT'S TRUE THAT IN GENERAL THERE'S A LOW ESTEEM OF EDUCATION AND MANY, MANY YEARS AGO, THERE WAS A VERY HIGH ESTEEM OF EDUCATION: YOU HAVE ONLY TO MENTION SCOTLAND TO REALISE THE HIGH ESTEEM OF EDUCATION AND FOR MANY OF US IT WAS THE ONLY WAY WE HAD TO GET ON IN LIFE UP THE LADDER AND TO BE ABLE TO TRAVEL AND TAKE JOBS ALMOST ANYWHERE IN THE COUNTRY OR IN THE WIDER WORLD. SO THERE WAS A TREMENDOUS ESTEEM FOR EDUCATION IN SCOTLAND, IN WALES FOR EXAMPLE AND IN VERY MANY PARTS IN ENGLAND. I WOULD STILL THINK THERE IS AN ESTEEM FOR EDUCATION BUT I THINK PEOPLE ARE NOT NECESSARILY NOW SEEING AT LEAST ALL THE PRACTICAL EFFECT OF EARNING CAPACITY, OF HIGHER EDUCATION. THAT IS BECAUSE SO MANY PEOPLE HAVE BEEN TAKING DEGREES WHICH ARE NOT NECESSARILY A PASSPORT TO A HIGHER SALARY BECAUSE THEY ARE NOT DEGREES AS SUCH WHICH LEAD TO JOBS. NEVERTHELESS, I PERSONALLY STILL REGARD IT AS A PRIVILEGE TO BE ABLE TO TAKE THOSE DEGREES: ONE'S OWN PERSONAL REASONS EARLIER IN LIFE, AND I MYSELF HAVE A SCIENCE DEGREE - AND I WENT FOR POLITICS. IT SO HAPPENS THAT BOTH THE LAW AND SCIENCE ARE VERY USEFUL FOR POLITICS.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 566 OF 21/9/82

FROM P S TO PRIME MINISTER.

PRIME MINISTER'S TALKS WITH JAPANESE PRIME MINISTER:

20 SEPTEMBER: BILATERAL ISSUES.

MY I P T REFERS.

POLITICAL CO- OPERATION.

1. BOTH PRIME MINISTER'S AGREED ON THE NEED FOR CLOSER POLITICAL DIALOGUE. THIS THEME HAS RECEIVED CONSIDERABLE EMPHASIS BOTH IN PRIVATE AND IN PUBLIC DURING THE VISIT. SUZUKI SAID THAT IT WAS IMPORTANT FOR JAPAN TO INCREASE EXCHANGES WITH THE UK, 'THE AXIS OF EUROPE'. THE PRIME MINISTER INVITED MR SUZUKI TO VISIT BRITAIN.

ECONOMIC CO- OPERATION.

2. THE PRIME MINISTER EMPHASISED THE DIFFICULTIES CAUSED BY JAPAN'S BALANCE OF PAYMENTS SURPLUS WHICH HAD RISEN FROM A DEFICIT OF DOLLARS 11 B. IN 1980 TO A PROBABLE SURPLUS OF DOLLARS 7 B. IN 1982 AND AN ESTIMATED SURPLUS OF DOLLARS 17.20B. IN 1983.

HOWEVER GREAT JAPAN'S EFFORTS TO INCREASE IMPORTS WERE, THE TREND OF THESE SURPLUSES WAS BOUND TO STIMULATE A RISING DEMAND FOR PROTECTION, ESPECIALLY IN A COUNTRY LIKE THE UK WHICH WAS MUCH MORE OPEN THAN, SAY, FRANCE. THE ISSUE WAS HOW TO SATISFY THESE FEELING AND YET KEEP THE OPEN TRADING SYSTEM.

3. ONE WAY OF DEALING WITH THE SITUATION WOULD BE FOR JAPAN TO UNDERTAKE MORE OVERSEAS INVESTMENT. THERE WERE ONLY 24 JAPANESE COMPANIES IN THE UK, COMPARED TO A 1,000 AMERICAN AND 180 GERMAN COMPANIES.

INTER-INDUSTRY UNDERSTANDINGS.

4. THE PRIME MINISTER REFERRED TO THE UNDERSTANDING ON CARS COMMENTING THAT ALTHOUGH PEOPLE SAID THAT THE 11 PER CENT JAPANESE SHARE OF THE UK MARKET WAS TOO HIGH WE KNEW THAT, HAVING REACHING AN UNDERSTANDING, THE JAPANESE WOULD KEEP TO IT.

PROBLEM OF NUMERICALLY CONTROLLED MACHINE TOOLS AND SAID THAT SHE WISHED TO ARRANGE FOR A MISSION FROM THE UK INDUSTRY TO VISIT JAPAN NOT LATER THAN OCTOBER TO TACKLE THIS PROBLEM WITH REPRESENTATIVES OF THE JAPANESE INDUSTRY. THERE WERE ALSO ONE OR TWO OTHER AREAS OF CONCERN, INCLUDING FORK LIFT TRUCKS.

6. MR SUZUKI SAID THAT THE JAPANESE INDUSTRIES CONCERNED WERE PURSUING A POLICY OF PRUDENCE. BUT HE AGREED THAT INTER-INDUSTRY CONTACTS WERE VALUABLE IN DEALING WITH THESE PROBLEMS AND HE WOULD WELCOME A MISSION FROM THE BRITISH MACHINE TOOL INDUSTRY TO JAPAN.

INDUSTRIAL COLLABORATION.

7. SUZUKI MENTIONED THAT OF THE 18 CASES SUGGESTED EARLIER UNDER THE DOI/MITI AGREEMENT, 6 WERE ACCEPTABLE TO THE JAPANESE, COVERING ROBOT AND OTHER ELECTRONIC PROJECTS 5 CASES WERE NOT ACCEPTABLE AND THE REST WERE STILL UNDER CONSIDERATION.

THE JAPANESE HAD PROPOSED THREE PROJECTS ON WHICH THEY WERE STILL AWAITING A RESPONSE. THE PRIME MINISTER SAID THAT SHE WELCOMED THE AGREEMENT ON 6 OF THE BRITISH PROPOSALS AND WOULD ENSURE THAT THE 3 PUT FORWARD BY THE JAPANESE WERE URGENTLY PURSUED. BUT SHE HOPED THAT THE JAPANESE WOULD BE AS ACTIVE IN MAKING PROPOSALS AS THE UK HAD.

TECHNOLOGY AGREEMENT.

8. THE PRIME MINISTER PROPOSED THAT SHE AND MR SUZUKI SHOULD ADOPT THE STATEMENT AGREED BETWEEN OFFICIALS EARLIER WHICH UNDERLINED THE INTENTION OF REACHING A PRACTICAL AND EFFECTIVE AGREEMENT WHICH WOULD ENCOURAGE TECHNOLOGICAL DEVELOPMENT AND EXCHANGE.

MR SUZUKI AGREED WITH THIS APPROACH.

DEFENCE SALES.

9 THE PRIME MINISTER BRIEFLY MENTIONED OUR HOPE THAT THE JAPANESE GOVERNMENT WOULD CONSIDER BUYING MAJOR CAPITAL GOODS WHICH THE UK HAD TO OFFER AND REFERRED, IN PARTICULAR, TO THE BAE 146 AND ITEMS OF DEFENCE EQUIPMENT SUCH AS HARRIERS AND SEARCH-WATER RADAR.

GENERAL COMMENT.

10. SUZUKI WAS FRIENDLY AND MORE RESPONSIVE THAN USUAL. WE WERE PLEASED WITH THE OUTCOME OF THE TALKS.

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FM TOKYO 210230Z SEP 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 565 OF 21/9/82

AND INFO PRIORITY PEKING.

FROM P S TO PRIME MINISTER.

PRIME MINISTER'S TALKS WITH JAPANESE PRIME MINISTER,
20 SEPTEMBER: INTERNATIONAL ISSUES.

THE BULK OF THE PRIME MINISTER'S DISCUSSIONS WITH
MR. SUZUKI YESTERDAY WAS DEVOTED TO BILATERAL QUESTIONS
(SEE MIFT NOT TO PEKING) .

THE FOLLOWING INTERNATIONAL QUESTIONS WERE ALSO RAISED

LEBANON

2. BOTH PRIME MINISTERS FORTHRIGHTLY CONDEMNED THE
MASSACRE IN BEIRUT. THEIR REMARKS HAVE RECEIVED
CONSIDERABLE PRESS COVERAGE HERE THIS MORNING.

CHINA

3. THE PRIME MINISTER SAID THAT SHE WOULD WELCOME
JAPANESE VIEWS ON CHINA. SUZUKI GAVE AN ANALYSIS OF
THE SITUATION FOLLOWING THE 12TH PARTY CONGRESS.
HIS MAIN CONCLUSION WAS THAT THE DENG REGIME WAS
NOW ALMOST BUT NOT COMPLETELY ESTABLISHED.
HE REFERRED TO HU YAOBANG'S SPEECH TO THE
CONGRESS IN WHICH HE HAD STATED THE CHINESE
OBJECTIVE OF QUADRUPLING AGRICULTURAL AND
INDUSTRIAL PRODUCTION BY THE END OF THE CENTURY.
FOR THIS, CHINA NEEDED A PEACEFUL INTERNATIONAL
ENVIRONMENT. HENCE ITS DESIRE TO AVOID DIRECT
CONFRONTATION WITH THE SOVIET UNION AND FURTHER
CONFLICTS WITH VIETNAM. IT WOULD ALSO WANT MORE
CO-OPERATION WITH THE WEST, IN PARTICULAR TO
OBTAIN CAPITAL AND ADVANCED TECHNOLOGY.
SUZUKI EXPLAINED THE ASSISTANCE THAT JAPAN HAD
PROVIDED FOR CHINA'S MODERNISATION PROGRAMME AND
URGED THAT THE UK, THE US AND OTHER WESTERN
COUNTRIES SHOULD GIVE SIMILAR HELP. THE TWO
PRIME MINISTER'S AGREED ON THE STRATEGIC OBJECTIVE
OF DISSUADING CHINA FROM CO-OPERATING WITH THE
SOVIET UNION.

FALKLANDS.

4. THE PRIME MINISTER SAID THAT THERE HAD BEEN A MISUNDERSTANDING BETWEEN JAPAN AND BRITAIN IN THE PAST BUT SHE NOW WANTED TO CONCENTRATE ON THE FUTURE. HER MAIN POINT WAS THAT IT WOULD NOT BE POSSIBLE FOR BRITAIN TO NEGOTIATE WITH ARGENTINA ABOUT THE FUTURE OF THE ISLANDS.

SIBERIAN PIPELINE

5. AT AN EARLIER POINT DURING THE VISIT(AS BULLARD KNOWS FROM HIS TELECON WITH COLES LAST SUNDAY) THE JAPANESE HAD FLOATED THE IDEA OF THEIR TAKING PART IN A MEETING OF FIVE FOREIGN MINISTERS IN NEW YORK TO DISCUSS THE AMERICAN PIPELINE MEASURES. WE HAD BEEN WARNED THAT MR SUZUKI WOULD WISH TO RAISE THIS ISSUE WITH THE PRIME MINISTER. IN THE EVENT, AFTER WE HAD EXPLAINED THE DIFFICULTIES TO THE JAPANESE, MR SUZUKI DID NOT RAISE THE QUESTION.

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(SEE WIRE NOT TO BEKING) *
MR SUZUKI YESTERDAY WAS DEVOTED TO DISCUSSING QUESTIONS
THE ROLE OF THE PRIME MINISTER'S DISCUSSIONS WITH
IN SEPTEMBER: INTERNATIONAL ISSUES.
PRIME MINISTER'S TALKS WITH JAPANESE PRIME MINISTER
FROM 1-3 TO PRIME MINISTER
WAS ALSO PRIORITARY BEKING
DECEMBER NUMBER: 203 OF 31/3/88
IN IMMEDIATE E.C.O
IN LONDON: 31/3/88
CONSIDERATIVE
END PAGE
IN BEKING
CC: E.C.O
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LDW NR 611/21

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GRS 220

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FM TOKYO 210315Z SEP 82

TO PRIORITY F C O

TELEGRAM NUMBER 567 OF 21/9/82

PERSONAL FOR SIR ROBERT ARMSTRONG AND SIR ANTONY ACLAND.

FROM P S TO PRIME MINISTER.

ECONOMIC SUMMIT.

IN HER DISCUSSIONS WITH THE JAPANESE PRIME MINISTER YESTERDAY THE PRIME MINISTER EXPRESSED CONCERN THAT THE LEADERS OF THE SEVEN WERE NOT PLANNING TO MEET UNTIL NEXT JUNE. SHE THOUGHT THAT WE SHOULD RAISE WITH THE UNITED STATES THE POSSIBILITY OF BRINGING THE MEETING FORWARD. THE MAIN ARGUMENT FOR DOING SO WAS THAT THE WORLD ECONOMIC AND FINANCIAL SITUATION HAD DETERIORATED CONSIDERABLE SINCE THE VERSAILLES SUMMIT AND A DELAY UNTIL NEXT JUNE SEEMED INAPPROPRIATE. (ALTHOUGH THE PRIME MINISTER DID NOT SUGGEST ANY NEW DATE SHE IS INCLINED TO ENVISAGE A SUMMIT TAKING PLACE EARLY NEXT YEAR, PERHAPS IN FEBRUARY)

2. MR SUZUKI AT FIRST SAID THAT IF THE PROPOSAL FOUND AGREEMENT AMONG THE REST OF THE SEVEN HE WOULD ALSO SUPPORT IT. LATER, HE DESCRIBED THE SUGGESTION AS A VERY GOOD ONE. THE TWO PRIME MINISTERS AGREED THAT IT WOULD BE DESIRABLE FOR THE POSSIBILITY TO BE DISCUSSED AT THE NEXT MEETING OF PERSONAL REPRESENTATIVES.

3. I THINK THE PRIME MINISTER WOULD BE GRATEFUL IF SOME THOUGHT COULD BE GIVEN TO THIS MATTER AND ADVICE SUBMITTED TO HER ON HER RETURN FROM THE FAR EAST.

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10 DOWNING STREET

re
c HK Gov
HMA - Peking
despatched en route.
Other copy - HMA - Tokyo
sent with original
30/9

From the Private Secretary

20 September, 1982.

Dear John,

Japanese views on Soviet/Chinese relations

The Prime Minister told me tonight that at the banquet given for her this evening by the Japanese Prime Minister, Mr. Suzuki had raised the subject of Soviet/Chinese relations. He said that at the 12th Party Congress Deng Xiaoping had laid down conditions for restoring relations with the Soviet Union (the conditions were clear from the speech he had given to the Party Congress). Deng indicated that if his conditions were met, China would repair relations with the Soviet Union. Suzuki had derived the impression that if the conditions were met, the Soviet military deployments on the Chinese border could be reduced. But it was most unlikely that the Soviet Union would accept Deng's stipulations. Mr. Suzuki considered that the significance of all this was that China had even considered restoring relations with the Soviet Union. Previously, all their talk had been about Soviet hegemony. He wondered whether the US appreciated the importance of this.

Mr. Suzuki went on to say that China was still very upset about America's decision to continue supplying arms to Taiwan. He asked the Prime Minister to try to dissuade the US Government from this policy - it was unwise to offend the Chinese on a fundamental point of principle since this could only drive them into the Russian embrace.

The Prime Minister replied to the effect that it would not be possible to dissuade the Americans on a point of principle of this kind. They were committed to the maintenance of Taiwan as a free country based on free enterprise. She had pointed out that in the 9 points which constituted Chinese policy on Taiwan, there was provision for a separate Taiwan, and for Taiwan to have her own forces and defend herself.

Commenting on this conversation, the Prime Minister said that she noted the readiness of Japan to take the easy way out when confronted with a problem. It was clear that no help could be expected from Japan on Hong Kong.

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- 2 -

I am sending copies of this letter to Sir Hugh Cortazzi in Tokyo, Sir Percy Cradock in Peking, and Sir Edward Youde in Hong Kong.

Yours ever

John Colson .

John Holmes, Esq.,
Foreign and Commonwealth Office.

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND MR. MASUMI ESAKI,
JAPANESE GOVERNMENT SPECIAL TRADE REPRESENTATIVE AT 1645 ON MONDAY
20 SEPTEMBER AT THE AKASAKI PALACE

Present:

Prime Minister

H.E. Sir Hugh Cortazzi

Mr. R.W. Gray

Mr. A. Donald

Mr. F.E.R. Butler

Mr. Masumi Esaki, Japanese Government
Special Trade Representative and
Chairman of the Special Committee
on International Economic Measures

Mr. Tadashi Kuranari, Vice Chairman
of the Special Committee on
International Economic Measures

H.E. Mr. Hirahara

* * * * *

After an initial exchange of courtesies in which the Prime Minister recalled Mr. Esaki's visit to London in 1982 and discussions with him about means of increasing the efficiency of the Japanese distribution system, Mr. Esaki referred to the actions being taken by the Japanese Government to reduce the trade imbalance in favour of Japan. As part of those actions, the Special Committee on International Economic Measures, which he had chaired, had held seven meetings, attended by thirty members including former Cabinet Ministers. He accepted that the results of Japan's efforts on this matter were not yet satisfactory, but they would continue to grapple with the problem.

The Prime Minister said that what mattered was the results of the measures taken and their effects on the figures. She referred to the measures being taken in the United Kingdom to improve the competitiveness of British industry and the effect of this on unemployment at a time when the world recession was hindering the creation of new businesses to take up the surplus labour. She knew that the Japanese Government was making strenuous efforts to deal with the problem, and she paid tribute to the courageous and helpful statement by Prime Minister Suzuki about the promotion of imports and outward investment.

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/ Mr. Esaki

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Mr. Esaki said that he would explain more fully to the British Ambassador the efforts being made by his Committee to contribute to solving these problems. As one example, he referred to chocolate biscuit imports to Japan and said that he would like to invite a representative of a medium or small biscuit manufacturer to Japan in November to see the situation at first hand. He said that there was already one joint venture with United Biscuits in Japan. He also referred to a letter from Mr. Mees , Special Adviser to the President of the United States, in which he had proposed consultations with the Japanese in October, covering beef, citrus fruit, tobacco and chocolate biscuits.

The Prime Minister recalled that on her last visit to Japan she had visited the factory in which United Biscuits was involved, and had been informed that productivity in Britain and Japan was very smiliar. But she commented that, although measures to assist imports to Japan on items like chocolate biscuits, whisky and textiles were vital, the imbalance was not likely to be solved by such measures alone. A solution was likely also to require sales of capital goods, of which Britain had some first-rate products to offer, for example the BAe 146 and some defence aircraft and equipment.

Mr. Esaki accepted this point, and said that his Committee would continue its efforts. He paid tribute to the work of the British Ambassador and his Embassy in promoting British sales to Japan. He then referred to the Prime Minister's meeting the previous night with Mr. Kawamata. He said that Mr. Kawamata had telephoned him and had expressed his delight at being honoured with more than an hour's discussion with the Prime Minister. Mr. Kawamata had commented that, in view of the prospects for the motor industry, Nissan might not take a decision about the project for some time. But if they decided to go ahead with the project in the European Community, their links with the United Kingdom made it very likely that it would be undertaken there. The Prime Minister said that she greatly respected Mr. Kawamata: she had held her conversation with him on a purely private basis, and did not want to embarrass him in any way in relation to the decision about the project.

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/ Mr. Esaki

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Mr. Esaki said that he would also like to seek the Prime Minister's help in expanding exchange visits of Parliamentarians between the two countries and would like to extend an invitation, through the British Ambassador, in the name of Mr. Suzuki. The Prime Minister said that she welcomed such exchanges and understood that Sir Julian Ridsdale would be bringing a further group to Tokyo in November.

Commenting on some references by the Prime Minister to the effects of robotics on employment in her opening remarks, Mr. Kuranari said that experience in Japan had not been that robotics destroyed jobs, but the contrary. Even if robotics removed jobs in manufacturing, Japanese experience was that there was scope for absorbing the labour in other expanding industries such as telecommunications. He offered to provide further information about Japanese experience to the Ambassador.

F.R.B.

20 September 1982

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original + HMT
copy despatched
30/9.

10 DOWNING STREET

From the Private Secretary

20 September, 1982.

Dear John,

Meeting between the Prime Minister and the
Japanese Minister of Finance

I enclose a record of the conversation
between the Prime Minister and Mr. Watanabe
in Tokyo on 20 September.

I am sending copies of this letter and
its enclosure to John Holmes (Foreign and
Commonwealth Office) and HM Ambassador in Tokyo.

*Yours ever
John Kerr*

John Kerr, Esq.,
HM Treasury.

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Record of a conversation between the Prime Minister and the Japanese Minister of Finance at 1610 on 20 September, 1982, in Tokyo

Present:

Prime Minister
Sir Hugh Cortazzi
Mr. R. Gray
Mr. J. Coles
Mr. I. Kydd

Mr. M. Watanabe,
Minister of Finance.

Mr. K. Watanabe,
Vice Minister of Finance.

Mr. Matsuo,
Director General, Customs Bureau.

Mr. Ohba,
Director General, International
Finance Bureau.

Mr. Hirahara,
Ambassador to UK.

Mr. Asami,
Secretary to Minister of Finance.

Mr. Watanabe apologised for a late arrival. He had left an important Cabinet meeting which had been discussing wages policies. The Prime Minister said that she had read an account of this problem in Mr. Suzuki's recent speech.

Mr. Watanabe said that he had just told the Japanese Cabinet that it would be necessary to follow the UK's example. Britain had been successful in curtailng wage rises to around 7%. He understood that we now aimed at rises of no more than 4-5%. The Prime Minister commented that the British record on pay was not as good as the Japanese. In the past, 4 incomes and prices policies, all of which had been breached, had led the trade unions to expect an annual increase in pay, regardless of whether output increased. In Japan pay rises had gone hand in

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hand with productivity. This was part of the explanation of Japan's success in exports. We aimed to lower the rate of inflation by persuading people that, as a matter of common sense, you could not expect to be paid more unless you produced more. It was easier to achieve results in the private sector than in the public. Workers in the public sector believed they had access to a bottomless purse. She wished the Japanese Government every success in its economic policy. She thought that that policy, as described in Mr. Suzuki's speech, was absolutely right.

Mr. Watanabe said that he always read the Prime Minister's speeches in Parliament with interest. His impression was that she addressed the basic economic principles rather than technical issues. That was the way to revive the economy. The Prime Minister agreed. If one departed from basic principles, one could make no economic progress. Moreover, people understood basic principles, but found technicalities less comprehensible. Japan had a high savings ratio. So it should be able to obtain extra money with relative ease in order to finance an unexpected deficit. Mr. Watanabe said that so far it had been easy to finance the deficit. The amount outstanding from Government bonds was around \$350b. But in the coming year Japan was facing a situation where it would need an additional flotation of bonds amounting to \$65b. It would not be possible to finance this at a low rate of interest. The Prime Minister agreed. The more one borrowed, and the more one was in competition for money, the higher the interest rate that had to be paid. Mr. Watanabe said that the value of Government bonds amounted to 6% of GNP and 33% of total Government expenditure, whereas in Europe they tended to represent about 10% of total expenditure. The Prime Minister said that she imagined that the Japanese Government had kept the interest rates on bonds down because the rates that banks could charge on deposits were controlled. Mr. Watanabe said that the interest rate on

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time deposits was 6%. This was quite high in relation to the inflation rate.

The Prime Minister asked whether the low value of the yen was producing a rise in the consumer price index. Mr. Watanabe agreed that it was. Or, more accurately, the depreciation of the yen would lead to a rise in wholesale prices, after a time lag. But the country was experiencing some weakness in demand, and people were economising. So a rise in wholesale prices would not easily find its way through to retail prices. Therefore profits would be squeezed.

The Prime Minister asked what the prospects were for the exchange value of the yen. Mr. Watanabe replied that there was no reason why the yen should not appreciate in the long run in view of Japan's good economic performance, but he would not wish to comment in detail on the perspective. The Prime Minister said that European currencies were weak against the dollar. No one knew whether lower interest rates in the US would hold because the size of the budget deficit was not known.

Mr. Watanabe explained that yen-denominated imports were only 3% of total Japanese imports. Even if Japan wished to increase the proportion, people would not wish to retain the yen. The Prime Minister commented that Japan could quickly make the yen popular. It had a strong economy, and could therefore make the yen strong. But that was a matter for Japan. Mr. Watanabe said that in a volatile situation no one wished to take refuge in the yen.

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The Prime Minister asked whether she was right in thinking that Japan's fundamental problem arose from the fact that for the first time in recent years it was entering a period of slow growth. Financial and economic policy, as well as expenditure, had been geared to fast growth. It would come as a shock to people that public and private expenditure now had to be geared to lower growth. Mr. Watanabe entirely agreed. Japan had enjoyed a high growth economy for 8 years. But this situation had been brought to an end by the rise in the price of oil; expenditure on social welfare, and public works were still rising. The Prime Minister said that she was familiar with the problem of demands for increased social welfare, usually at indexed rates. There was also the problem of an ageing population. Mr. Watanabe said that rising public expenditure was a universal disease. The Prime Minister agreed, but said that we had to fight it together. She wished Japan well in its pursuit of sound policies.

Mr. Watanabe presented the Prime Minister with a copy of the speech he had made at the recent meeting of the IMF. The meeting ended at 16.40.

A. J. C.

20 September, 1982.

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND MR. ABE, JAPANESE
MINISTER FOR INTERNATIONAL TRADE AND INDUSTRY AT THE AKASAKA PALACE
AT 1530 ON MONDAY 20 SEPTEMBER

Present:

Prime Minister

H.E. Sir Hugh Cortazzi

Mr. R.W. Gray

Mr. F.E.R. Butler

Mr. B. Ingham

Mr. Abe, Minister for International Trade
and Industry

Mr. Kurihara, Vice Minister

Mr. Natazawa, Director General for Trade
Policy Bureau

Mr. Kuroda, Deputy Director General

Mr. Sekino, Director, Europe, African
Middle East Directorate

H.E. Mr. Hirahara

Mr. Doi, Private Secretary to Mr. Abe

Bilateral trade issues

* * * * *

The Prime Minister, welcoming Mr. Abe, said that she had had a full discussion of trade and industrial matters with Prime Minister Suzuki, and would not repeat now what she had said to him. The most urgent detailed matter was that she had proposed that a mission from the United Kingdom machine tool industry should visit Japan early in October for discussions with their opposite numbers in the machine tool industry: Japanese penetration of the United Kingdom market for numerically controlled machining centres had increased from 1% in 1977 to 60% in 1981 and for the numerically controlled lathes from 21% to 44% over the same period, and this situation was not tolerable.

Mr. Abe said that he had received a full report of the Prime Minister's discussions with Prime Minister Suzuki. The Japanese machine tool industry had increased their minimum export price to European community countries and the international recession had caused some falling off of sales: there had been a 24% decrease in sales to the European Community since April and no dramatic increase was expected in the near future. But he understood that Prime Minister Suzuki had welcomed the proposed mission, and he also thought it would be helpful.

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/ On inter-industry

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Inter-industry collaboration

On inter-industry collaboration, the Prime Minister said that she was glad that the Japanese had been able to approve five of the eighteen projects put forward by the United Kingdom and were considering others: Mr. Suzuki had said that morning that the Japanese were waiting for a response from the United Kingdom on the three projects which they had put forward, but she was now advised that responses on these three projects had been delivered and were now being considered on the Japanese side.

Mr. Abe said that the Japanese private sector had been studying the proposals received from the British side in a positive spirit and he would encourage them to continue to do so. The Japanese Government wanted to promote such ventures. They would also continue to contribute positively to the exchanges between Governments, of which the next meeting was due to take place in Tokyo in November. Before that meeting there was due to be a seminar on industrial and technical co-operation in London, and a Japanese biotechnology mission would also be visiting London. He welcomed too the scheme for seconding engineers to Japan from the United Kingdom, which he thought very important.

Nissan

The Prime Minister thanked Mr. Abe for his helpful letter to the Secretary of State for Industry over the projected Nissan investment in the United Kingdom. She said that she had seen the Chairman of Nissan on the previous evening. She had emphasised that she did not want to put him in an embarrassing position and knew that the Nissan board had deferred their decision on the project, but she had emphasised that she hoped that when the decision came to be made they would consider the United Kingdom favourably. She mentioned that there could be complications for the United Kingdom if Japanese cars were imported from Australia, and she hoped that this situation would not arise.

Mr. Abe said that he had strongly advised Nissan to go ahead with their proposed investment in the United Kingdom, and would continue to do all that he could as Minister to encourage the project.

/ Mr. Abe

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GATT Ministerial Meeting

Mr. Abe said that the Japanese Government would do their best to bring the forthcoming GATT Ministerial meeting to fruition to maintain and protect the free trading system. He referred to the consultations between the European Community and Japan under Article 23 of GATT, in which the Community appeared to be taking issue with the whole social system of Japan: he considered that this was not an appropriate subject for GATT consultations and hoped that it would be possible to find a more constructive way of dealing with the issues. The Prime Minister said that the British Government attached much importance to the GATT Ministerial meeting. All developed nations were suffering from high unemployment and this was exacerbated when measures were taken against exports such as those recently taken by the United States against the United Kingdom (although she emphasised that there was no question of allowing such differences to undermine the Western Alliance). The GATT meeting would be a difficult one and could not be expected to provide a solution to all the problems, but it was essential that it made a positive and constructive contribution. On the consultations under Article 23, the Prime Minister said that she regarded the social system as a matter for Japan: what mattered was the results of that system on the balance of world trade. Imports represented only 3% of Japan's GDP, compared with 5% for the United States and 6% for the European Community countries, and Japan's surplus on current account was growing very fast indeed. It was these figures which needed to be changed. While resolution of current trading issues was essential, it was unlikely that a satisfactory balance could be achieved without purchases by Japan of large capital goods; and here British products like the BAe 146 and the Harrier and other British defence equipment could make a significant impact.

Mr. Abe said that he was conscious of the growing trade imbalance between Japan and the United Kingdom: Japanese exports to the United Kingdom had been recently growing more slowly than in the past, but the situation was deteriorating because Japanese imports from the United Kingdom had declined even more. He referred to the market-opening measures which Japan had taken and Mr. Suzuki's statement in support of these measures, but he accepted that Japan must show its concern by deeds rather than words: they would continue their efforts to find ways of correcting the trade imbalance and promoting industrial co-operation.

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/ Finally,

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Finally, Mr. Abe summarised his impressions of the visit to China which he had just completed. He said that the results of the 12th Congress had been to increase the stability of the Deng faction. Premier Zhao Ziyang had told him that the Chinese Government had set a target of quadrupling overall production by the end of the century and of modernising its industry to achieve that. He had been most impressed by the increasing emphasis being put by the Chinese not only on heavy and chemical industrialisation but also on developing their transport, energy and other industries.

On parting, Mr. Abe said that he was delighted at the close co-operation on industry and trade matters between the Japanese Embassy in London and the British Government.

F.R.B.

20 September 1982

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Copies sent
30/9

10 DOWNING STREET

From the Private Secretary

20 September, 1982.

Dear John,

Prime Minister's Visit to Japan

I enclose a copy of the record of the conversation between the Prime Minister and the Japanese Foreign Minister on 20 September.

I am sending copies of this letter and its enclosure to Jonathan Spencer (Department of Industry), Imogen Wilde (Department of Education and Science) and HM Ambassador in Tokyo.

You are

John

John Holmes, Esq.,
Foreign and Commonwealth Office.

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E. R.
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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE JAPANESE
FOREIGN MINISTER AT 1445 ON MONDAY 20 SEPTEMBER IN TOKYO

Present:

Prime Minister

Sir Hugh Cortazzi

Mr. Alan Donald

Mr. A.J. Coles

Mr. B. Ingham

Mr. Sakurauchi

H.E. Mr. Hirahara

Mr. Y. Kato

Mr. Hatano

Mr. Takashima

Mr. Matsumoto

Mr. Antatsu

* * * * *

Mr. Sakurauchi said it had been a pleasure to visit London recently. He was most grateful for the warm welcome given to him by Mr. Pym. The Prime Minister said that the Foreign Secretary had been glad to receive Mr. Sakurauchi, who would always be welcome. We wanted more political consultation with Japan. Mr. Suzuki had been right to say earlier in the day that we should use diplomatic channels for this. But these must be supplemented by regular meetings at Ministerial level to consider some of the larger problems. Mr. Sakurauchi commented that we had very good Ambassadors on both sides. Sir Hugh Cortazzi was an excellent speaker of Japanese and he had been able to have very frank conversations with him.

The Prime Minister asked Mr. Sakurauchi to describe the Japanese position on President Reagan's recent initiative relating to the Middle East. The Fez Summit had adopted a rather different proposal. Unless there were some movement on the problem next year we should be entering an election period in the United States which always brought the danger of a lack of movement. A further question which arose was the action which should be taken about the terrible massacre in the Lebanon. We were still not clear as to the facts.

/ Mr. Sakurauchi

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Mr. Sakurauchi said that the Middle East presented the most important diplomatic problem at present. The position of Japan was rather different from that of the United States. Japan wanted a comprehensive peace settlement, believed that it was necessary to recognise the right of self-determination of the Palestinians and considered that that involved the establishment of a Palestinian state. The Reagan initiative provided for self-determination but went no further. Nevertheless, Japan warmly welcomed the Reagan initiative. If it were implemented it would certainly be a step forward. A peace settlement required recognition of Israel's right to exist and self-determination for the Palestinians. As regards the Lebanon, it was very important that the voices of the world condemned this shocking deed. Japan was currently President of the Security Council.

The Prime Minister said that the United Kingdom, together with its European partners, had recognised the Palestinians' right of self-determination. The possibility could not be excluded that the Palestinians might choose to have their own state. On the other hand they might not. There was also the question of who should take part in exercising the right of self-determination. Did this embrace just the Palestinians on the West Bank and in Gaza or did it embrace the Palestine Diaspora? A Palestinian state would cause difficulties for Israel and the United States who feared that it might come under Soviet influence. She knew that King Hussein was willing that such a state should be federated with Jordan if this was considered desirable. A worrying aspect of the situation was that we continued to talk in generalities but never got down to precise steps. The Ten had tried to after Venice but had found that the details had not been thought through. We were unfortunately making no progress on the fundamental Palestinian problem. Each time we tried to, a new crisis prevented us. We were trying to influence our American friends and persuade them to address the fundamental problem of Palestine.

There was then a brief exchange on the question of the despatch of a fact-finding mission to the Middle East (though the Japanese interpreter used the word "observers"). The Prime Minister took the view that there might be merit in the United Nations sending a team to the Lebanon to elucidate the facts.

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/ Mr. Sakurauchi

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Mr. Sakurauchi said that he understood the United Kingdom's position on President Reagan's initiative. As to the Fez Summit, the fact that the Arab states had adopted a unified position for the first time was a step forward. But for the massacre in the Lebanon, things might now be brighter.

The Prime Minister said she would be interested to hear the Foreign Minister's views on South East Asia. We supported the ASEAN Group of states and were impressed by the progress made by their organisation. One problem of general interest was relevant to this region. The industrial efficiency of some of the newly developing countries, coupled with their lower wage rates, meant that there was a new pattern of world trade which exacerbated other problems. Some of these countries were able to undercut the advanced industrialised countries on such items as steel and shipbuilding. We had to try to adapt to these changes, but there was no doubt that they caused additional problems.

Mr. Sakurauchi said that Japan was very happy to see the ASEAN countries collaborating closely with each other. Their technological progress was impressive. When he had attended the meeting of ASEAN Foreign Ministers recently he was glad to observe that they were strongly committed to maintaining free trade. Their thinking was in line with that of the industrialised countries. The Prime Minister commented that she often explained to people in Britain that we had exported capital equipment to countries such as the ASEAN countries and it would be ironic if we could not now buy the fruits of their production process.

Mr. Sakurauchi observed that the United Kingdom had recently reached an interim agreement with some other countries on the Sea-bed Mining Provisions of the Law of the Sea Convention. Japan felt very strongly that a comprehensive Convention was necessary. The Prime Minister said that the rules in the Convention relating to deep-sea mining posed certain difficulties for us but she undertook to examine the latest position in the near future.

Mr. Sakurauchi also raised the question of the International Science Exhibition which Japan was planning to mount in 1985. The

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/ Prime Minister

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The Prime Minister said that she hoped that before she left Tokyo she would be able to announce a positive decision about British participation.

A.S.C.

20 September 1982

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Record of a conversation between the Prime Minister and the Japanese Prime Minister at 0920 hours on Monday, 20 September, 1982, in Tokyo

Present:

Prime Minister	Mr. Suzuki
Sir Hugh Cortazzi	Mr. Sakurauchi
Mr. F. Butler	Mr. Miyazawa
Mr. R. Gray	H.E. Mr. Hirahara
Mr. B. Ingham	Mr. Matsunaga
Mr. A.J. Coles	Mr. Kiuchi
Mr. J. Whitehead	Mr. Kato
Mr. A. Donald	Mr. Murata
Mr. A. Bache	
Mr. R. Charlesworth	

Political Co-operation

Mr. Suzuki proposed that, since the two Prime Ministers had had a previous exchange of views, they should proceed immediately to discussion of matters of common interest. He invited the Prime Minister to lead on the question of political co-operation between Japan and the United Kingdom. The Prime Minister said that the UK belonged to a number of organisations which provided for regular consultations between their members - the European Community was one such example. We also had regular bilateral consultations with a number of European countries. This regular and frequent contact meant that if a situation demanding quick action arose, it was possible for action to be taken with relative ease. In the case of Japan, the UK had only one similar link, namely that of the Economic Summit. She doubted whether this was enough. We had recently agreed upon arrangements for officials to have regular discussions about East-West matters, Africa and the Middle East, and aid. She very much hoped that Mr. Suzuki would soon pay an official visit to Britain.

/Mr Suzuki

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Mr. Suzuki agreed that dialogue and consultations should be actively promoted. The need was all the greater in the present fluid world economic and political situation. Japan had active exchanges with the US at the levels of Heads of Government, Foreign Ministers and other Ministers, supplemented by official contact. By comparison, consultation with the West Europeans was not so active. He was convinced this must be improved, particularly with the UK, the "axis of Western Europe". He hoped that the Prime Minister's visit would give further impetus to the strengthening of dialogue and consultation.

China

The Prime Minister suggested that the two countries should aim to take joint action more often. She was conscious that Japan could tell us more, 'e.g.', about China. It was important to us to have a correct presentation of what was happening in China which would one day be a very powerful nation and affect the balance of world affairs.

Mr. Suzuki said that he totally agreed on the need to established a framework of continuous and close dialogue. This should be conducted through diplomatic channels. Since the Prime Minister would soon be visit China, she might like to have his views on current developments there. Japan had watched developments at the recent 12th Party Congress with interest. The main conclusion was that the Deng regime was now "almost established". From another point of view, this meant that

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the faction supporting the cultural revolution had retreated. Further evidence of the same trend was the increase in the number of young leaders who shared Deng's approach, who were now included in the Central Committee. The basic policies of present-day China showed that the influence of Mao had been weakened. But this did not mean that the Deng regime was 100% established. Before the Congress the leadership had contemplated that the senior ruling members would all join an advisory committee. But this aim had not been fully implemented. The Deng regime, which he regarded as consisting of Deng, Hu Yaobang, and Zhao Ziyang, amounted to a system of collective leadership. Their basic aim was to implement the 4 "modernisations". In his speech to the Party Congress, Hu Yaobang had made public the objective of quadrupling agricultural and industrial production by the end of the century. To realise this aim, China needed a peaceful international environment. Their desire to maintain such an environment could be seen in their wish to avoid direct confrontation with the Soviet Union, and further conflict with Vietnam.

He believed that in implementing its modernisation policy, China sought increased cooperation with the Western industrial democracies. It was interested in obtaining capital and advanced technology from the West. It was most desirable that Chinese policies should continue on this course. We should not let China lean towards the Soviet Union. It should be encouraged to continue on the route of cooperation with the West and the promotion of an open China. Japan had been helping with the modernisation programme through yen loans, technical cooperation, trade and commerce, and training Chinese engineers.

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/ : China

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China now had 1b people with ample natural resources including oil and coal. It suffered from poverty and unemployment, but had a bright future as a strong power. Japan's capacity to help was limited. He therefore urged the UK, US and other Western countries to cooperate with the modernisation policies.

Falklands

The Prime Minister said she was most grateful for this account. She wholly agreed with the strategic objective of dissuading China from cooperating with the Soviet Union. The methods Japan had devised were excellent. She would wish to return to the question of Hong Kong later, but now wanted to mention the present situation regarding the Falklands. There had been a misunderstanding between Japan and Britain in the past, but she would now concentrate on the future. We should not find it possible to negotiate with Argentina over sovereignty. We had been in full possession of the islands for 150 years. The people were of British stock. We had sent 103 ships and 27 000 men to the South Atlantic and had suffered casualties. Japan would ~~understand~~ that in those circumstances we could not negotiate over sovereignty. The islanders themselves wished to maintain their British way of life, and their wishes were paramount.

Economic Co-operation

The Prime Minister then suggested that the subject of economic cooperation should be discussed. She was grateful for the rapid translation which Mr. Suzuki had provided of his latest speech on the Japanese economy. She warmly congratulated him on the content of his speech, and his skilful answers to the Press.

On the general economic front, she was concerned that the leaders of the Seven were not planning to meet until June. Was there any possibility of trying to bring the meeting forward? The world recession was deeper, and had lasted longer

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than we had conceived - it was now affecting Japan. The Personal Representatives were due to meet later this year, but she thought we should raise with the US the possibility of bringing forward the next Economic Summit.

Mr. Suzuki said that the world economy was in its worst condition since the Second World War. The recession was serious and was continuing for far longer than had been expected. Versailles had produced no clear prescription for escaping from the recession. But it had given some encouragement by confirming the determination of the participants to maintain free trade in face of the strong trend of rising protectionism and their firm intention to support the GATT Ministerial meeting in November in order to ensure its success. United States interest rates were falling as was inflation. However, he was concerned about the worsening of the unemployment situation. In his recent speech he had explained the difficulties facing the Japanese economy. Current policy was to concentrate on the management of domestic demand. With regard to the Prime Minister's proposal that the Economic Summit should be brought forward, if this found agreement among the rest of the Seven he would also support it. The Prime Minister suggested that this possibility should be raised at the next meeting of Personal Representatives. Meanwhile nothing should be said to the press in order not to embarrass the United States. Mr. Suzuki agreed. He thought that the suggestion of advancing the Summit was a very good one and would direct his Personal Representative accordingly.

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Mr. Suzuki said that he wished to state briefly his thoughts on the re-vitalisation of the world economy. He had touched on the issue at Versailles and now wished to make three points.

First, it was necessary to promote joint research and development in advanced technology. This would increase productivity and contribute to stimulating the world economy. He envisaged joint efforts on a bilateral basis between Japan and the United Kingdom, Germany and the United States.

Secondly, we should promote investment, technological advance and industrial co-operation in third countries. He had derived the impression from his visit to Europe that Japan's industrial co-operation with the United Kingdom was the most successful among European countries.

Thirdly, we needed to take account of the developing countries. Their accumulated debt now stood at 500 billion dollars. Their annual repayments of loans and interest amounted to 100 billion dollars. This was a serious obstacle to world peace and prosperity.

/ Industrial and trading issues

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Industrial and trading issues

The Prime Minister said that she would like to respond to Mr. Suzuki's remarks about the international situation and deal with bilateral trading issues within that context. At the Versailles meeting Heads of Government had reaffirmed their faith in the open trading system. Both Japan and the United Kingdom were major exporting countries, and the UK exported an even higher percentage of its national product than Japan. Within Europe, Germany and the UK were perhaps the most open markets, but both were currently suffering from high unemployment, especially the UK. Because the UK was a politically stable country, the situation was accepted reasonably calmly. But there were inevitably demands for protection, especially because other countries were now taking action against the UK, for example the United States over steel and in the special case of the Siberian pipeline.

The Prime Minister said that the forthcoming Ministerial GATT meeting would be a difficult one but it was right to hold such a meeting now. At that meeting it was bound to be pointed out that despite Japan's efforts to increase imports, which were recognised, her balance of payments had moved from a deficit of \$11b. in 1980 to a surplus of \$5b. in 1981, a surplus in the first half of 1982 at an annual rate of \$7b.; and a surplus of \$17-20b. was being forecast for 1983. However great Japan's efforts to increase imports were, the trend of these surpluses was bound to stimulate a rising demand for protection, especially in a country like the UK which was much more open than, say, France.

The Prime Minister said that the issue was how to satisfy such feelings and yet keep the open trading system. She accepted that Japan would do everything possible to maintain an exchange of manufactured goods, but it would remain difficult to deal with the problem of growing Japanese surpluses by this means alone. One way of dealing with responding to the situation would be for Japan to undertake more overseas investment, as the UK had done in the past in order to preserve its trade with

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its former Empire. People would feel better about accepting Japanese goods if they were manufactured in their countries and they had the benefit of the jobs which went with them. Whereas there were a thousand American manufacturing companies in the UK and one hundred and eighty German companies, there were still only twenty-four Japanese companies; but those which had invested in the UK had been highly successful and with Japanese management there had been no serious labour relations problems.

The Prime Minister said that there would also need to be more inter-industry understandings. Such an understanding existed in the motor industry: although people said that the 11 per cent Japanese share of the UK market was too high, they knew that, having reached an understanding, the Japanese would keep to it. She had to mention a specific problem coming up with numerically controlled machine tools: she regretted that this would be a problem since Japan was outstanding in this field and she had been most impressed by her visit to the Fanuc factory. But UK firms had invested heavily in machine tools, had good quality products but had not achieved the necessary volume. The Japanese penetration of the UK numerically controlled machine market had increased from 1 per cent in 1977 to 60 per cent in 1981, and it was clearly impossible to allow the market for UK firms to be destroyed in this way. She would therefore like to arrange for a mission from the UK machine tool industry to visit Japan not later than October to tackle this problem with representatives of the Japanese industry. There were also one or two other areas of concern, including fork lift trucks.

/ The Prime Minister

The Prime Minister said that it was necessary to take action on these matters with a view to reducing the imbalance of trade between the UK and Japan, but the imbalance was such that action on this front was unlikely to be sufficient in itself. She therefore hoped that the Japanese Government would consider seriously buying major capital goods which the UK had to offer. She mentioned particularly the BAe J46 and items of defence equipment like the Harrier and Searchwater radar. These were not matters to be discussed between Prime Ministers and she recognised that orders could not be pulled out of a hat; but there were good UK products in this field which she hoped that the Japanese Government would consider seriously.

Mr. Suzuki said that he would like to touch on industrial co-operation before returning to trading issues. He understood that under the agreement of April 1981 to promote Anglo-Japanese industrial co-operation, the UK had produced 18 project proposals, of which 6 were agreeable to the Japanese, covering robot and other electronic projects. 5 cases were not agreeable and the rest were still under consideration. The

/ Japanese

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Japanese had proposed 3 project proposals , on which they were still awaiting a response. The Prime Minister said that she welcomed the agreement on 6 of the British proposals and would ensure that the 3 proposals put forward by the Japanese were urgently pursued. But she hoped that the Japanese would be as active in making proposals as the UK had.

Turning to trade issues , Mr. Suzuki said that the Japanese Government regarded issues of investment and imports as appropriate to be tackled in the first instance between leaders of the industries themselves but , in view of their importance to relations between Governments , the Japanese Government wished to give their support to such discussions and to make every possible effort to contain the pressures for protectionism. He wished to remind the Prime Minister of the measures which the Japanese Government had already taken. First they had implemented two years in advance reductions in tariffs agreed at the GATT Multilateral Trade Negotiations. Second , the Japanese Government had proposed the abolition or reduction of tariffs on 96 products , including high technology products: these proposals were to be approved in the next session of the Diet with the target of implementation from 1 April next year. The Japanese Government had also established an Ombudsman to deal with complaints of non-tariff barriers , and this system would operate positively in dealing with such complaints. With the announcement of the second import package the Prime Minister had made a statement urging Japanese business to welcome foreign products and overseas investment: Mr Suzuki stressed that this was an unusual and significant initiative for him to make such a statement. A conference was being arranged of leading Japanese companies involved in foreign trade , and the Prime Minister intended to reiterate the principles of his statement to that conference in order to ensure that they were understood. Foreign trade missions were also being encouraged to visit Japan.

/ On machine tools

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On machine tools and fork lift trucks, Mr. Suzuki said that the Japanese industries involved were pursuing a policy of prudence on pricing policy on exports to the European Community; and, as the Prime Minister had mentioned, an understanding on the volume of cars exported to the UK market was already in place. He agreed that inter-industry contacts were valuable in dealing with these problems and he would welcome a mission from the British machine tool industry to Japan.

The Prime Minister said that she had seen Mr. Suzuki's statement on imports and investment and recognised that it was a positive statement, which she warmly welcomed. But, of course, the actions taken by the Japanese Government would be judged by their results in terms of UK imports into Japan and Japanese imports into the UK.

Agreement on Technology

Turning to the proposed technology agreement, the Prime Minister said that she agreed that Britain and Japan must give a lead in promoting new technology. All countries faced unemployment difficulties which new technology could exacerbate in the short term; but the present generation could not be the first to turn its back on the opportunities provided by a new industrial revolution. Officials had reached agreement on the press guidance about the intention to negotiate an effective and practical agreement and she proposed that the Prime Ministers should adopt that statement with the intention of reaching a practical and effective agreement which would encourage technological development and exchange. Mr. Suzuki said that he had seen the statement and was in favour of it. He would urge the Japanese agencies concerned to consider the possibilities and hoped that the statement would lead to a good and effective agreement.

CONFIDENTIALInternational Financial Situation

The Prime Minister said that she would like to offer a comment on the world banking system. That system was facing many problems. One was the situation in Mexico where neither the outgoing nor the incoming President wanted to take responsibility for the corrective measures necessary. She stressed the importance, in dealing with the varied circumstances of debtor nations, of working through international organisations, particularly the IMF, and firmly supporting the IMF in insisting that such countries adopted prudent policies. Mr. Suzuki fully agreed and said that Japan followed a policy of making economic and technical assistance conditional on the pursuit of prudent policies in the countries concerned. He agreed that the IMF and World Bank should be given full support in promoting the adoption of such policies.

Lebanon

The Prime Minister suggested that she and Mr. Suzuki should have a brief exchange on the situation in Lebanon. She wished to express her abhorrence at the reported large scale killings and said that the British Government would be putting forward their further views through the United Nations. Mr. Suzuki said that he was in agreement with the Prime Minister in deploring the massacre. The reasons for it were as yet unknown, but such horrible savagery had to be condemned. In view of the reports that the massacre had occurred in West Beirut his view was that Israeli forces should immediately be withdrawn. He agreed that the right course was to pursue the matter through appropriate resolutions in the United Nations.

/ Hong Kong

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Hong Kong

The Prime Minister said that she would like to tell Mr. Suzuki a little about how she saw the position on Hong Kong which she was about to discuss with the Chinese Government. She thought that this would be of interest to Japan in view of the investment and joint projects which Japan had in Hong Kong. She believed that it was in the interest of the whole area, and especially of China, that the stability and prosperity of Hong Kong should continue. She saw it as her task to convince the Chinese Government that to maintain the confidence on which stability and prosperity depended, some arrangement needed to be made for the continuance of British administration. Hong Kong rested on a unique partnership between British and Chinese people, and the free enterprise system was an essential element in that partnership: that system depended on a separate currency in Hong Kong and on the British system of law and administration.

There was reason to think that the Chinese Government were under the illusion that the British Government derived revenue from Hong Kong: that was untrue. It was necessary to convince the Chinese Government that if there was any suggestion that the principles on which the economy of Hong Kong rested would not continue, there would be a collapse of the Hong Kong dollar, of property values and of the financial centre. Some switching of funds out of Hong Kong was already taking place because it was known that the lease on the major part of the territories came to an end in 1997. What mattered in this situation was not the view of the Prime Minister or the British Government but the view taken by those who would have to keep their money in Hong Kong.

Mr. Suzuki said that the issue of Hong Kong was primarily a bilateral one between British and Chinese Governments, but because of Japan's economic relations with Hong Kong the

/Japanese

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Japanese Government were deeply interested in it. His advice to the Prime Minister was to deal directly with Deng Xiaoping on the matter, with as few other people present as possible. This advice was based on his experience of dealing with the disputed territory of Senkaku Island on which, when dealing directly with Deng, he had easily reached agreement that the two Governments should co-operate on the basis of their major common interest and leave aside the differences of detail: in consequence it had been agreed that, without raising the matter concretely the status quo should be maintained, so that the issue was effectively shelved. The Prime Minister welcomed Mr. Suzuki's advice on the method to deal with Deng, but commented that in the case of Hong Kong it would not be sufficient to shelve the issue if the confidence of investors in Hong Kong was to be maintained.

Conclusion

Concluding the discussions, the Prime Minister proposed, and Mr. Suzuki agreed, that their press officers should tell the press that very fruitful discussions had taken place in an atmosphere of co-operation and desire to solve the problems rather than to concentrate on difficulties.

A.J.C.

21 September 1982



The two Prime Ministers have noted the progress which has been made in industrial and scientific cooperation between Britain and Japan. They agreed that further efforts should be made in the field of technology. They have accordingly instructed their officials to hold further discussions with a view to preparing a draft text.

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FM TOKYO 201510Z SEP 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 563 OF THE 20 SEP 82

INFO IMMEDIATE PEKING AND HONG KONG (PERSONAL FOR GOVERNOR)

PRIME MINISTER'S TALKS WITH MR. SUZUKI (20 SEPT)

1. FOLLOWING DISCUSSION OF THE SITUATION IN CHINA, THE PRIME MINISTER EXPLAINED TO SUZUKI A LITTLE OF HER THINKING ON THE PROBLEM OF THE FUTURE OF HONG KONG.

2. THE PRIME MINISTER EMPHASISED THE IMPORTANCE OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG. SHE WOULD TRY TO CONVINCE THE CHINESE LEADERS THAT FOR CONFIDENCE TO CONTINUE THERE WOULD HAVE TO BE ARRANGEMENTS UNDER WHICH BRITISH ADMINISTRATION CONTINUED. SHE POINTED OUT THAT HONG KONG WITH ITS FREE ENTERPRISE ECONOMY HAD INVESTMENTS FROM THE WHOLE WORLD INCLUDING JAPAN. AN INDEPENDENT HONG KONG DOLLAR AND THE FREE ENTERPRISE SYSTEM, COUPLED WITH THE BRITISH SYSTEM OF LAW, HAD PRODUCED A GOOD COMBINATION BETWEEN CHINESE PEOPLE AND BRITISH ADMINISTRATION. THE CHINESE THOUGHT THAT BRITAIN GOT REVENUE FROM HONG KONG. WE DID NOT TAKE A SINGLE DOLLAR OR POUND. THE MONEY WAS ALL PLOUGHED BACK INTO HONG KONG. AND THERE WAS NO ECONOMIC ASSISTANCE FROM HONG KONG.

3. HER TASK WAS TO CONVINCE THE CHINESE GOVERNMENT THAT IF THERE WAS ANY SUGGESTION OF A BASIC CHANGE IN THE ADMINISTRATION THERE COULD BE A COLLAPSE OF THE HONG KONG DOLLAR, PROPERTY VALUES WOULD DROP AND THE RESULT COULD BE DISASTROUS. SHE HOPED THAT IT WOULD BE POSSIBLE TO ENTER INTO TALKS WITH THE CHINESE GOVERNMENT IN ORDER TO ASSURE PEOPLE THAT PROSPERITY AND STABILITY WOULD CONTINUE IN HONG KONG.

4. SUZUKI RECOGNISED THAT HONG KONG WAS PRIMARILY A BILATERAL ISSUE BETWEEN THE UK AND CHINA. BUT BECAUSE OF JAPAN'S ECONOMIC RELATIONSHIP WITH HONG KONG AND THE MANY CONTACTS THERE, JAPAN HAD A DEEP INTEREST IN ITS FUTURE. HE ADVISED THAT IT WOULD BE WISE TO TRY AND HAVE A FRANK TETE-A-TETE WITH DENG XIAOPING. ON THE TERRITORIAL DISPUTE ABOUT THE SENKAKU ISLANDS, HE HAD FOUND DENG PARTICULARLY HELPFUL. DENG IN EFFECT HAD SAID THAT IT WAS IMPORTANT TO CONCENTRATE ON THE POINTS IN COMMON AND SET ASIDE SMALL DIFFERENCES. THE FUTURE OF THE SENKAKU ISLANDS COULD BE LEFT TO THE DECISION OF POSTERITY. SINCE THEN THE CHINESE HAD NEVER REFERRED TO THE SENKAKU DISPUTE AGAIN.

5. DONALD SUBSEQUENTLY STRESSED TO THE JAPANESE FOREIGN MINISTRY THE EXTREME IMPORTANCE OF NOT DIVULGING ANY OF THE SUBSTANCE OF THIS EXCHANGE. IN SPEAKING TO THE PRESS WE SHALL ACKNOWLEDGE ONLY THAT THE SUBJECT OF HONG KONG WAS DISCUSSED BRIEFLY.

CORTAZZI

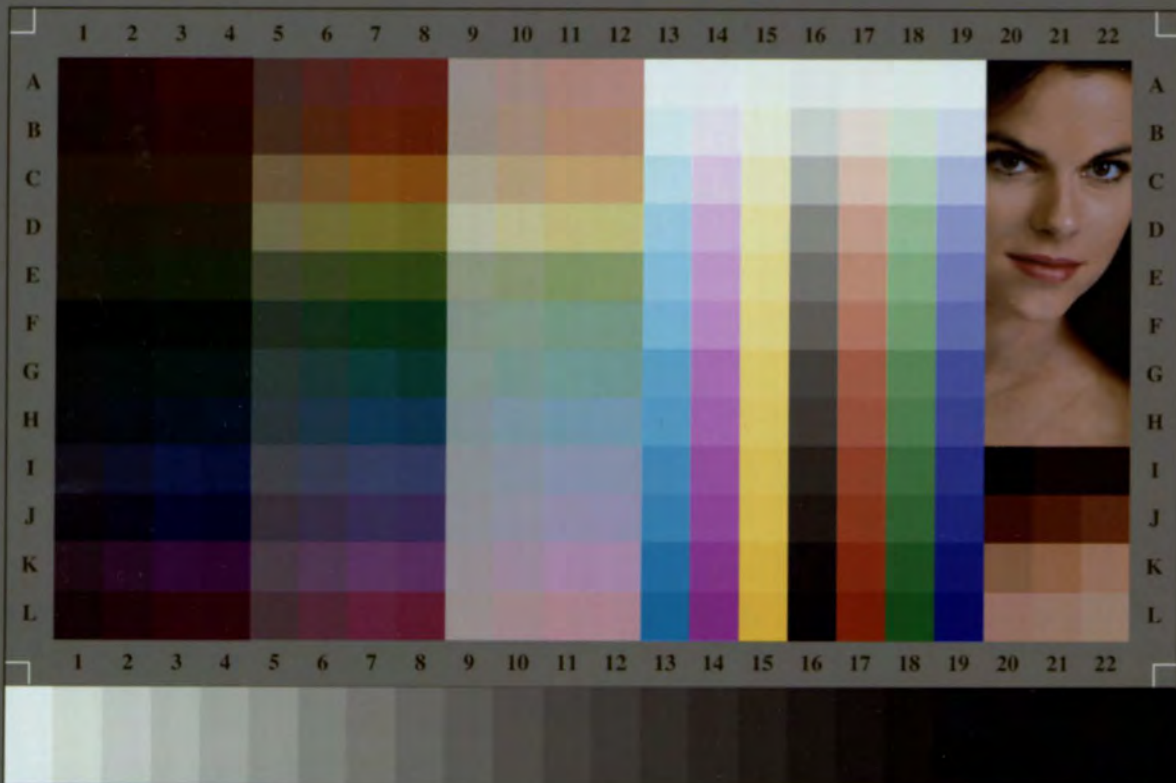
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PART 1 ends:-

Suzuki Speech 20/9

PART 2 begins:-

Tokyo Tel 563 20/9



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