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RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF JAPAN, MR. ZENKO SUZUKI, HELD AT NO. 10 DOWNING STREET AT 1150 HOURS ON WEDNESDAY 17 JUNE 1981

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Present:-

Prime Minister	Mr. Zenko Suzuki
Foreign and Commonwealth Secretary	H.E. Mr. Naraichi Fujiyama
Secretary of State for Industry	Mr. Tsutomu Kawara
Secretary of State for Trade	Mr. Masuo Takashima
Sir Robert Armstrong	Mr. Toshiaki Muto
Sir Michael Palliser	Mr. Hiromu Fukada
Sir Hugh Cortazzi	Mr. Takashi Kato
Mr. Michael Alexander	Mr. Ichiro Fujiwara
Mr. Robin McLaren	Mr. Sakutaro Tanino
	Mr. Shinichi Kitajima

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The Prime Minister welcomed Mr. Suzuki and his colleagues to London. It was important that those who subscribed to the same values should meet regularly. She was particularly glad to have the opportunity of talking to Mr. Suzuki before the Ottawa Summit. Expressing his thanks, Mr. Suzuki looked forward to a fruitful exchange of views on international political and economic issues as well as bilateral matters.

During further courtesies, Mr. Suzuki expressed congratulations on the engagement of the Prince of Wales and Lady Diana Spencer. The Prime Minister undertook to convey them and enquired about the Emperor's health. Mr. Suzuki said that he was well and enjoying life but because of his age he had asked the Crown Prince and Princess to represent him at the Royal Wedding. The Japanese Cabinet would give their formal agreement to this after Mr. Suzuki's return and we should then be informed officially. Mr. Suzuki added that although the Crown Prince had agreed to be a co-patron on the Great Japan Exhibition a prior engagement would prevent him from attending its opening in October. Consideration was now being given to which member of the Imperial Family might visit Britain on this occasion.

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The Prime Minister proposed that political questions should be discussed first and invited Mr. Suzuki to give his views. The British Government were concerned about Afghanistan, Poland and of course the Middle East. She recalled the close co-operation between Japan and Europe following the Iran hostages crisis.

Mr. Suzuki referred to his recent visit to the US. In his discussions with President Reagan there had been complete agreement that those countries which held to the ideals of freedom and democracy should extend their co-operation in the interests of promoting peace and stability. They had discussed the build-up of Soviet military forces and the threat posed by increasing Soviet influence in Asia, including Afghanistan, and Africa. They had agreed on the need to maintain deterrence and that in the security field each should make the contribution appropriate to its national circumstances.

Continuing, Mr. Suzuki said that the countries of the third world had an increasing political influence but economically and socially they were still weak. The non-oil LDCs had been particularly hard hit by the economic recession; Western neglect of their problems would stimulate Soviet penetration. He therefore hoped that Europe, Japan and the US could join forces in increasing assistance to such countries.

Mr. Suzuki added that it was also important to solve problems among the industrialised democracies which faced inflation, unemployment, stagnation and imbalances between their economies. In the medium term there were also likely to be serious problems over energy. There was a need for the industrialised countries to show greater understanding of each other's problems and to increase their cooperation. In doing so they would contribute both to the security of the West and to peace and stability more generally.

/In answer

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In answer to a question, Mr. Suzuki said that there were currently 1.3 million unemployed in Japan. The Prime Minister said that that corresponded to 2.2 per cent of the work force, a figure which could be accounted for by people changing jobs. Japan was very fortunate in this respect. She also noted that Japan's inflation was running at only 6.2 per cent, and offered her congratulations. For Europe and the US unemployment was the burning issue and inflation was much too high. We were suffering from the effects of the world recession. Successive rises in the price of oil meant that our traditional customers could no longer buy our goods and there was increasing competition for trade among Western countries. All these matters would need to be discussed at Ottawa.

The Prime Minister then invited the Foreign and Commonwealth Secretary to speak on the other matters which Mr. Suzuki had raised. Lord Carrington said that there was a connection between the Soviet military build-up and the problems of the third world. The British Government was concerned by the extension of Soviet power into Indochina (through Vietnam), Afghanistan and Africa, and particularly concerned about the situation in Poland because the future of East-West relations depended on what happened there. The NATO countries had responded to the situation by committing themselves to increasing their defence spending in real terms by 3 per cent a year. But there was a danger that Western influence in the third world, particularly in countries like Pakistan, would be eroded unless we were able to provide sufficient help. There was a need for more investment and aid. Britain was still providing over £1,000 million in aid which was as much as we could afford. The constraints on the Japanese defence effort were well known but Lord Carrington hoped that Japan could make its contribution through aid and pay special attention to those countries most vulnerable to Soviet influence, in particular Pakistan. In this context he wished to take the opportunity to thank Mr. Suzuki for the recent increase in Japan's aid to Zimbabwe.

Mr. Suzuki

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Mr. Suzuki agreed that any Soviet intervention in Poland would place a dark cloud over the future of detente. It was important that the West should make it clear to the Russians that they would have to pay a very high price if they intervened. If Soviet intervention did take place Japan would wish to co-operate closely with other Western countries with a view to agreeing on a "responsible" response. As regards Indochina, the Japanese supported the early convening of an international conference on Cambodia. They were keeping in close touch with ASEAN countries over this. Lord Carrington had mentioned the importance of aid to countries bordering areas of tension. The Japanese were already directing their aid in this way, in particular to Pakistan, Turkey and Thailand. Mr. Suzuki was glad that Japan had been able to increase its aid to Zimbabwe.

Lord Carrington then outlined the main features of the proposed initiative on Afghanistan. We had in mind an international conference in two stages. The first stage, which would be attended by the Permanent Members of the Security Council, Pakistan, Iran and India, would concentrate on the external aspects of the problem. Participation in the second stage would be extended to include Afghan representatives; it would seek to reach agreement on the international arrangements proposed at the first stage and create the conditions in which Afghanistan's independent and non-aligned status could be restored. We would prefer this idea to be put forward as a European initiative; if not we would propose it ourselves. Lord Carrington hoped that the Japanese Government would give it their support once it had been made public. In the meantime it was important to preserve secrecy. Mr. Suzuki said that this sounded like a very good idea. Japan was a member of the Security Council, though not a Permanent Member, and would want to co-operate.

Mr. Suzuki said he wished to say something on Japan's position as regards defence. The Japanese Constitution placed certain limits on Japan's defence role, and Japan was also bound by its three non-nuclear principles. But the Japanese had been making steady efforts to improve their defence capabilities. Between

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1971 and 1979 defence expenditure had grown in real terms by an average of 7 per cent a year. Similarly, Japan had doubled its development assistance between 1977 and 1980 and hoped to double it again over the next 5 years.

The Prime Minister pointed out that the UK spent 5½ per cent of GNP on defence. This was a heavy burden which was reflected in our industrial costs. We also had a very good record on aid. By contrast Japan's spending on defence was less than one per cent of GNP. She therefore hoped that Japan would be able to increase its aid to the third world.

The Prime Minister then turned to trade questions, emphasising that she was speaking as a friend. The British Government believed in the open trading system. The UK exported twice as much per head as Japan and was also a major importing country: we had few raw materials apart from oil and coal and also had to import food. It was therefore to our advantage to resist protectionism and preserve the open trading system. But we should not be able to maintain that policy unless others opened their markets to British goods as freely as the UK market was open to their goods. The Government faced great pressure from people who wanted more protectionist policies. This was because of the increasing penetration of the British market in sensitive sectors, particularly cars and electronics, and because of the general belief in Britain that other countries were erecting non-tariff barriers which operated to the UK's disadvantage. We were seeking to tackle the problem through the European Community, which was the correct channel, and were therefore greatly disappointed that the recent EC/Japan talks had achieved no progress. The Prime Minister appealed to Mr. Suzuki to do everything possible to open up the Japanese market. Japan's imports of manufactures were very low; indeed they were on roughly the same level proportionally as those of Turkey. This was a major problem for Europe and the US, and a major problem for Japan. The Prime Minister hoped that efforts to solve it could begin before Ottawa; otherwise it was likely to be an important topic for discussion there.

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Mr. Suzuki thanked the Prime Minister for her frank and friendly remarks, and in particular for what she had said about the importance of upholding the principles of free trade and stemming the tide of protectionism. He hoped that the Prime Minister and Lord Carrington would work for the maintenance of the open trading system during the UK Presidency of the European Community. The Prime Minister had mentioned Britain's wish to work through the Community in resolving trade problems. This question had also been raised by M. Thorn on 16 June. It was very desirable that the EC Commission should resolve differences of approach among the member states; Japan would then be able to show its full respect for the Community by using the Commission as the official channel for trade discussions.

As regards the opening of the Japanese market, Mr. Suzuki said that that market was not as closed as it might seem. Once the cuts agreed at the Tokyo round of MTNs had been fully implemented, the average tariff in Japan would be only 3.6% compared with 5% in the US and 6.4% in the EC. The Prime Minister intervened to say she had been referring to tariffs on manufactures, and in particular on scotch whisky which was a very important UK export. Mr. Suzuki claimed that the 3.6% figure referred to tariffs on manufactures and 'minerals'. He added that Japan now maintained residual import restrictions on only 5 items whereas restrictions applied to 6 items in the US and 27 in France. As regards the question of increasing imports of manufactures, the Minister for International Trade and Industry was about to visit London and would be seeing British Ministers. Mr. Suzuki hoped that the opportunity could be taken to discuss this question further.

At the Prime Minister's invitation, the Secretary of State for Trade said that since 1975 imports of Japanese cars to this country had been governed by an inter-industry understanding. In general the British Government had been content with the way which this understanding had operated but he was concerned by the prospect that cars excluded from the US market as a result of the recent US/Japan agreement would be diverted to other markets. It was

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essential to preserve the integrity of the existing voluntary arrangements; Mr. Biffen hoped that Mr. Suzuki could assure him that the Japanese government shared his concern on this point.

Mr. Suzuki said he had a high regard for the understanding between the two motor manufacturing industries, which was a model of its kind. There was no need for concern about the possibility of diversions of cars from the US to the European market: the understanding reached with the US was on the basis of the exports actually achieved in recent years. During his current visit to Europe Mr. Tanaka would be assuring his European counterparts that Japan would continue to be very vigilant over car exports to Europe. Japan had no wish to see these exports cause difficulties for the European industries.

The Prime Minister then invited Sir Keith Joseph to speak. The Secretary of State for Industry said he was looking forward to meeting Mr. Tanaka. There were now more than 20 Japanese firms which had established factories in this country and they were doing well. He hoped that Nissan would also decide to invest in the UK; if they did so it would represent a very big step forward in collaboration between the two countries. Mr. Suzuki was no doubt aware that Rolls-Royce was collaborating with a number of Japanese firms over a new aero-engine, the RJ 500. This project would have the British Government's full support if it proved sound and commercially viable. Sir Keith Joseph added that he was hoping to visit Japan in September for an inward investment seminar and looked forward to pursuing these matters then.

Mr. Suzuki said that Nissan had carried out a feasibility study with regard to the possibility of investment in the UK. He believed that the prospects were bright but Mr. Tanaka would be able to give a clearer indication of the company's position when he visited London. He understood it was the strong wish of the three Japanese companies concerned to proceed with the RJ 500 project.

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The Prime Minister suggested that the conversation should be continued over lunch since other guests were assembling. The meeting ended at 1308.

*Handwritten signature*

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