



Prime Minister

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To note

NOTE OF A MEETING WITH THE JAPANESE GOVERNMENT ECONOMIC MISSION  
TO EUROPE

Present:

Chancellor of the Exchequer (In the Chair)

Mr Hancock

Miss Sinclair

Miss Rutter

Mr Sunderland (DOTrade)

Mr Yoshihiro Inayama - Honorary Chairman, Nippon Steel Corporation

Mr Naraichi Fujiyama - Ambassador

Mr Toshio Nakamura - Chairman, The Mitsubishi Bank Limited

Mr Takehiro Sagami - Adviser to the Minister of Finance

Mr Isao Masamune - Chairman, Industrial Bank of Japan Limited

Mr Masaya Miyoshi - Managing Director Keidanren

Mr Hideo Kitahara - Adviser to the Minister for Foreign Affairs

Mr Yoshiyasu Sato - Deputy Director-General, Economic Affairs Bureau,  
Ministry of Foreign Affairs

Mr Binsuke Sugiura - Chairman, The Long-Term Credit Bank of Japan  
Limited, Chairman, Committee on Economic Research,  
Keidanren

Mr Norishige Hagesawa - Chairman, Sumitoms Chemical Co, Ltd

Mr Koro Bessho - Official, First International Economic Affairs  
Division, Ministry of Foreign Affairs

Mr Bunzo Watanabe - Chairman, Jinomoto Inc

Mr H Suzuki - Chairman, Showa Denko KK

Mr Ibayashi - Personal Secretary (Mr Inayama)

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The Chancellor greeted the delegation from the Keidanren. He was sorry that the Prime Minister was not able to see the delegation, but she had just returned from abroad. It was always a great honour to receive a distinguished deputation from the Keidanren.

2. Mr Inayama thanked the Chancellor for his welcome, the delegation had been very happy to receive a letter from Mrs Thatcher. He thanked the Chancellor for giving them the opportunity to meet him. The Japanese Prime Minister, Mr Suzuki, had asked the delegation to come as a Government mission, and they had been delighted to accept. Mr Inayama felt the US, Japan and European Community, should intensify co-ordination and co-operation at a very trying time. He was aware of the problems with the trade imbalance between the Community and

/Japan - that was





Japan - that was primarily a matter for Governments but the Keidanren could contribute a lot. He felt the need very strongly to safeguard the free economic world and not to strain economic solidarity by an unwillingness to tackle problems. They had had a frank exchange that morning with the CBI who had presented them with a paper outlining the actions they would like the Japanese to take. The delegation would take that back and consider it.

3. The Chancellor stressed that it was important to understand problems and then look at the ways to find a solution. They all wanted to promote growth and increase wealth but without friction, that meant growth had to be balanced - and not be to the detriment of one particular country or one particular industry. His first anxiety was that Japanese growth was concentrated too much on exports. There is a need to expand the Japanese domestic market. The second imbalance showed up in the balance trade between Japan and the UK: UK exports to Japan were only £500 million whereas Japanese exports to the UK amounted to some £1700 million. The problem was concentration - in light commercial vehicles the Japanese market share was now 19 per cent. These problems had existed for a long time and were getting worse, despite the effort the UK was devoting to trade promotion in Japan. If the position continued to deteriorate, the Government would have no option but to take action.

4. Asked to comment on this, Mr Inayama stressed that the problems were the result of the working of the free market. The problems would not arise if consumers did not want to buy Japanese cars, TV's, steel or watches. But the Japanese did want to see the European economy survive, It was essential to find a solution by discussion.

5. The Chancellor shared Mr Inayama's attachment to the Liberal economy. The problem was that the principles would come under threat if the economy continued to work in such an unbalanced way. There was a grave danger of further restrictions, which the Chancellor did not want. But the Chancellor could outline five positive things that could

/be done quite quickly





be done quite quickly which would help remedy the situation. The first thing to do was to improve the openness of the Japanese domestic market. There were some areas which were still very heavily protected, in goods where European economies could compete. He had discussed this in Japan 8 years ago, but the problems remain the same.

6. The next priority was for Japan to open her capital markets to give access for other countries to Yen finance on the same borrowing terms. This seemed to be the most important thing still outstanding in the current negotiations on the export credit consensus. It was important to secure agreement on this, and it will be a pity if this were to prove a stumbling block.

7. The next important thing was to encourage inward investment. There were already many successful examples - Nippon Steel, Mitsubishi and Sony. This was a good way of marrying the Japanese skills and money with UK resources. It promoted exports from this country. The Government wanted to see more inward investment. The Chancellor also attached importance to increased technical co-operation - the Fujitsu/ICL co-operation was one example; there was scope also for co-operation in third countries as the Mitsubishi and Marconi joint scheme on satellite ground stations proved. It was important to do more in all these areas. The Chancellor added that it was essential that the voluntary restraints that had been agreed were made to work.

8. Mr Sagami took up the point on export credits, saying that what the Community proposed would in fact be a surcharge on the Japanese prime rate. Japan had worked to absorb a second oil shock and for that reason had been able to maintain lower interest rates. This penalised the Japanese for their success, and was totally against the spirit of the guideline. Nonetheless he would convey the Chancellor's views back to Tokyo.

9. Mr Inayama thought that the question of the market share in light commercial vehicles had not arisen in the talks between the Society of

/Motor Manufacturers and





Motor Manufacturers and JAMA until very recently. Mr Sunderland thought that the subject had first been raised 4 years ago and had been risen every subsequent time. JAMA had undertaken to exercise prudence, and then had undertaken to exercise even more prudence. So although month by month market penetration was expected to decrease in coming months, it was impossible for the share to go under 15 per cent.

10. Mr Inayama expressed a desire to see more co-operation, but this of course was conditionally on the judgement for the individual firm that a specific project would make money. The mission had heard the CBI views, and would like to develop on this basis. The Chancellor summed up by saying that there were three requirements to success: firstly that expansion should not damage our economy, secondly that there should be clear examples with increased UK trade to Japan, and lastly that there should be more examples of co-operation between the UK and Japan.

11. The meeting closed at 4.10 pm.

JKR

JILL RUTTER

13 October 1981

Distribution:

Those UK representatives present

Sir D Wass

Mr Ryrie

Mr Quinlan

Sir K Couzens o.r

Mr Lavelle

Mr Mountfield

Mr Dixon

Mr Slater

Mr Bottrill

Mr Garside

PS/S/S Trade

PS/Minister for Trade (Mr Rees)

PS/S/S Foreign Affairs

PS/No.10

PS/S/S Industry

Counsellor Economic British Embassy Japan