



CONFIDENTIAL

Prime Minister

(2)

interesting but no immediate
action required. You could read
at the weekend if you preferred

PRIME MINISTER

I should like
to talk to John
about this.

A & C. 15/2 ✓

VISIT TO JAPAN AND KOREA: 1 - 5 FEBRUARY

I visited Japan and Korea last week. I had discussions with Government and business representatives in the two countries about both international trade issues and specific opportunities for UK exporters and inward investment.

Japan

My visit coincided with the Japanese Government's announcement of its own import liberalisation package in response to our own and the EC's specific requests for increased market access. This figured large in my meetings with the Ministers for International Trade and Industry and of Transport, the Chairman of the ruling Liberal Democratic Party's Special Committee on External Trade, the Governor of the Bank of Japan and senior members of the Keidanren, analogous to the CBI. I was also able to open the impressively represented exhibition by the Society of British Aerospace Companies, and address the British Chamber of Commerce in Tokyo.

The Japanese import package involves an acceleration of tariff reductions, the removal of certain non tariff barriers and the appointment of a "Trade Ombudsman". As a recognition of international concern about the low level of Japanese manufactured imports it is welcome, and there were indications that some further non tariff barriers will be abolished. But I return unconvinced - as I believe are the Japanese - that it is capable of making anything other than a long term and marginal impact upon the Japanese trade imbalance with other OECD countries.

Quick acting measures are needed to increase imports. Public sector purchasing offers the greatest potential. I emphasised our interests in sales of defence, aerospace and environmental



engineering equipment. In particular, the BAe146 is well suited as a replacement to the ageing aircraft fleet on domestic routes. Separately, I noted that greater access for UK investment in the local market could provide a direct stimulus for our exports.

But increased Japanese imports would not remove the problems created by their exports. Success by capital equipment suppliers in Japan would be small consolation for those sectors of our domestic economy which complain of a "laser beam" export strategy. The Japanese Government seems to recognise this by its more open interest in the course of inter-industry negotiations for voluntary restraint arrangements. There was acceptance that these had to be effective, and maybe even extended in their scope, as a means of avoiding more formal trade restraints. I hope this attitude bodes well for the successful continuation of the VRAs which now cover some 25% of our imports, of which the most sensitive sector remains cars and light commercial vehicles.

I also made clear that suitably structured investment by Japanese companies in the UK was welcome. Nissan is the most obvious example of this, although I was careful to avoid any detailed discussions about the project.

Last, but by no means least, there is the problem created by Japanese exports, particularly for capital projects in third markets. It is clear that the Japanese are able to offer prices and financial packages which UK and other OECD companies can find impossible to match. Japanese companies benefit from a "cheap Yen and low interest rates". Furthermore, the export effort of these companies undoubtedly benefits from the nature of their relationship with Government in a strong domestic market, and their readiness to take a long term assessment of overseas markets. We must ensure our access to the Yen market, but there is little hard evidence that the Japanese are acting "illegally" in terms of international agreements. Rather, we have to consider how we might show a similarly imaginative flexibility at company level, and whether we as Government might make better use of both domestic and overseas financial assistance as a means of securing export orders.



It is an unoriginal, but necessary, observation that the fundamental "Japanese problem" is its enviable economic success, most recently evidenced by its ability to ride the "oil shock". Even if it wished to, it is not in the power of the Japanese Government to remove fundamental factors which determine the growth and direction of the Japanese economy. Its social structure provides a strong motive force for the economy, and the relative poverty of its indigenous raw materials - notably oil - demands that it maintain an export surplus in manufactures. Equally, it has to be recognised that Japan is itself boxed in by international conditions. Thus, the Governor of the Bank of Japan persuasively argued why a significantly stronger Yen could not be sustained whilst US interest rates remained high.

Because there is no easy macro-economic solution, Japan has been pressed for essentially micro-economic measures. It has undoubtedly been slow to react to valid criticisms of its import regime and export strategy, and it is important and essential that pressure be maintained for further action. But it is not simply Japan which has had difficulty in deciding exactly what measures are necessary. There are differences of emphasis between the US and EC on the importance of market access relative to the problems of Japanese export penetration. Within the EC there are sharply divergent views on the attractiveness of Japanese inward investment. In short, within the discordant chorus of Japanese criticism lie essentially national concerns which break through as soon as attempts are made to define areas for export restraint or sales opportunities in the Japanese market.

In these circumstances it is not surprising if Japan feels confused. It is being blamed for manifesting the kind of success sought by the West to which it is economically and politically tied, but culturally and geographically distant. Its justifiable national pride is not therefore matched by real self-confidence, but rather by fears of isolation which we must beware of becoming self confirming. It would be foolish to believe that the protectionist



consequences could be contained in a way that would not be severely damaging to all Western economies, and ourselves in particular.

Korea

Korea is no place to settle ones nerves after a visit to Japan. Its industrial and export growth over recent years is matched only by its potential, forbiddingly outlined in its 5 Year Plan. My visit was hosted by the Minister for Commerce, who visited the UK last year, and the programme included a Presidential audience as well as meetings with several other Ministers and the Federation of Korean Industries.

Korea is the epitome of a newly industrialised country. Until recently its main challenge to the UK was textile exports, and I received predictable complaints about their treatment - involving cut backs - in the MFA III negotiations. But there is every reason to fear that our trade deficit can only grow as the Korean industry becomes more sophisticated. A five fold increase in its global engineering and electronic exports is scheduled by 1986. My visit to a factory leaves me convinced that this is not unrealistic.

Like Japan, Korea risks feeling isolated, the more so since it is caught in the middle ground of being neither a developing nor fully industrialised country. The American military presence is no longer considered as axiomatic. There are gestures towards liberalisation of the strict import regime, and pressures must grow for substantially improved accessability. Meanwhile, however, the major export opportunities in Korea are for capital equipment as it extends its industrial base.



My visit followed shortly after that of Humphrey Atkins'. I am sure that it is a market which repays such attention. Not least because of a sense of unwanted political isolation, this is a market where official visits can do much commercial good. In this context the Ambassador strongly expressed the hope that HRH the Duke of Kent could visit Korea during his projected Far East trip later this year. Whilst the business leaders are sophisticated products of US business schools, it is very much a corporate economy where large purchasing decisions are strongly influenced by political good will and attractive financial packages. This was most recently reflected in GEC's £80m success in tendering for the extension of the Seoul metro.

Conclusion

As this was my first visit to both countries, my views are necessarily impressionistic. Nothing dissuaded me that these specific economies pose a real economic and political challenge for the West. The determination and expertise shown by both the SBAC exhibitors, and the staff of our two Embassies does, however, leave room for reassurance that it can be successfully met.

I am copying this to Geoffrey Howe, Peter Carrington, Humphrey Atkins, Patrick Jenkin, John Nott, and also Sir Robert Armstrong.

WJB

W.J.B.

FILE

ds

BK 24/2

17 February 1982

The Prime Minister has read the report by the Secretary of State for Trade on his recent visit to Japan and Korea, contained in his minute of 11 February, and has commented that she would like to discuss the report with him. As you know, a meeting has been arranged for 1715 hours on Thursday 25 February.

A J COLES

John Rhodes, Esq.,
Department of Trade.

12



10 DOWNING STREET

Caroline

When could the S.N. see

Dr. Bilben : (for 20-30
minutes).

A.S.C. - $\frac{17}{2}$

John

Thursday 25 Feb
at 1715.

C.S.