Foreign and Commonwealth Office

London SW1A 2AH

8 December 1980

Dear Michael,

Visit of Japanese Foreign Minister, 9-10 December

The Prime Minister has agreed to receive the Japanese Foreign Minister for a short courtesy call at 9.30am on Wednesday 10 December. Mr Ito will be accompanied by Mr Fujiyama (the Japanese Ambassador), Mr Katori (Deputy Foreign Minister) and an interpreter (Mr Kitajima). Sir Edward Youde will also attend.

Mr Ito will have arrived the previous evening from Paris where he will have attended the International Energy Agency Ministerial Meeting and called on the French President and Prime Minister. He will be having talks with Lord Carrington at 11.30am on 10 December followed by lunch and will be leaving that afternoon for Brussels (where he will have talks with the Commission as well as the Belgian Government) and then The Hague, Bonn and Cairo.

This will be Mr Ito's first visit to London since his appointment as Foreign Minister in July and the first by a member of the Suzuki Government. I enclose a biographical note. You will see that he was Acting Prime Minister for a while following Mr Ohira's death in June (when he exchanged messages with Mrs Thatcher), and has just been in Peking, where he led a team of Japanese Ministers for Ministerial consultations with the Chinese (during which the Chinese reportedly indicated a further slowing down of their economic plans).

Since the call will be short there will be little time for substantive discussion. The Prime Minister might begin by emphasising the importance we attach to working closely with the Japanese on major international questions (eg the Arab/Israel dispute - the Japanese publicly associated themselves with the European initiative earlier this year). The Japanese are anxious to be involved in the West's discussions of major issues; in reply to their enquiries about recent press reports we have told them that no proposal for a Quadripartite Heads of Government meeting has been put to us. The Japanese are also concerned

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about the uneven European performance in applying restrictions on trade with the Soviet Union; they have allowed their Exim Bank to grant only a very few credits since the invasion of Afghanistan. The Prime Minister could welcome Japan's contribution to Western interests through aid to key states (eg Pakistan) and their plans for a gradual increase in their defence expenditure (by a planned 9.7% next year). But it would be advisable not to press too hard on defence, which remains a politically sensitive issue in Japan.

The Prime Minister will also wish to take the opportunity to underline the continuing need for the Japanese car industry to restrain its exports to Britain, and to suggest that more Japanese investment in the UK and industrial collaboration would help to create a healthier bilateral economic relationship. The growing imbalance in trade with Japan is causing serious concern, not just in the UK but throughout the European Community: Mr Ito should be left in no doubt that the EC is absolutely united on this issue. If Mr Ito refers specifically to Rolls Royce's collaboration with Japanese companies on the RJ500 aeroengine, the Prime Minister may wish to say we favour industrial cooperation in principle but HMG have not yet been asked to approve or fund this project.

Trade problems apart, relations between Japan and the UK are very good. Lord Carrington is looking forward to paying his postponed visit to Japan in April. We have told the Japanese that we hope that a Member or Members of the Japanese Imperial Family - perhaps the Crown Prince and Princess - will visit the UK in October 1981 to inaugurate the Royal Academy's Great Japanese Exhibition.

In so far as time allows, the Prime Minister could usefully give Mr Ito a brief account of the way in which the Government are tackling our economic problems.

I enclose a background note on UK/Japan trade relations and EC/Japan relations and a fact sheet on Japan.

Yours ever

Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
No 10 Downing Street
LONDON SW1

MASAYOSHI ITO

Foreign Minister (since July 1980)

Born 1914. A long career in the Ministry of Agriculture and Forestry (MAF) (where he rose to be Director of the Fisheries Agency and then Administrative Vice-Minister) before entering politics. Elected to the Diet 5 times. Appointed Chief Cabinet Secretary in November 1979. Following Mr Ohira's death on 12 June, he became acting Prime Minister as provided for in the Constitution.

A member of the Ohira (now Suzuki) faction and a friend of Mr Ohira since they both served as young government officials in Manchuria, he remained one of Mr Ohira's closest political confidants. Known for his frankness and said to have been popular among his juniors during his time in the MAF.

Performance so far as Foreign Minister uneven. Some off-the-cuff remarks later contradicted or qualified by his officials. On defence issues a dove in a hawkish Cabinet. Unlikely to serve for very long as Foreign Minister but has considerable influence with Prime Minister Suzuki.

As Foreign Minister he has already visited Thailand, Burma, Pakistan, India, China and the USA. Visited China from 3 to 5 December as leader of a team of Japanese Ministers.

A major handicap is his lack of English. Interests include rugby.

VISIT OF THE JAPANESE FOREIGN MINISTER, 10 DECEMBER 1980

ESSENTIAL FACTS

Trade and Industry

1. The trade imbalance continues to worsen: likely to be up from £884m in 1979 to over £1,000m this year (UK exports to Japan, January to October 1980 £503m, down 2% from same period in 1979; imports £1,447m, up 13%; deficit £994m, up 24%). Prospects not good with the expensive pound and slower Japanese imports of manufactures. Some remaining formal barriers to UK exports (eg tariffs and taxes on whisky) but now few in number. Main long term problem is self-contained nature of Japanese society and industry. We continue to make a special effort in this difficult market.

2. The future lies in industrial cooperation and inward investment. The Japanese attach particular importance to RJ500 collaboration project; HMG has yet to be asked by Rolls Royce to approve or fund. The major electronics firm NEC announced plans to make microchips in Scotland during Mr Younger's visit to Tokyo in September.

Car Imports

3. Still the most sensitive bilateral issue. The Japanese car industry's 'prudence' in its exports to the UK has been interpreted to involve a share of 9-11% of the UK market. It reached 12.3% in the period January to 20 November and will exceed 11% for 1980 as a whole despite reassuring talks between the British and Japanese industries (SMMT and JAMA) in September. Mr Nott recently wrote expressing concern to Mr Tanaka (Minister of International Trade and Industry) and suggesting that the Japanese share in 1980 and 1981 taken together should revert

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to 'historic levels' (ie 9-11%). Mr Tanaka's reply is encouraging but non-specific. It is important that JAMA give an early indication that they accept this formula for 1980-81 (the two industries will have contacts on 8-9 December and at a higher level in January).

Defence Sales

4. Japanese purchases of British defence equipment could help to reduce trade imbalance. Past sales include Rolls Royce marine engines, Ferranti avionics, tank gun barrels and ammunition. The most important prospects are the Spey marine gas turbine engine and the FH70 howitzer (decision due shortly). The Japanese decision not to buy British Aerospace's Rapier ground-to-air missile has been extensively and over dramatically reported in the 'Times'. This was disappointing but their preference for the less efficient Japanese TANSAM was not unexpected.

EC/Japan Relations

5. Recently Japanese have worked closely with the Nine on political issues. We wish to encourage this but it will take time before all European countries regard the Japanese as automatic partners.

6. Growing concern in the Community about the imbalance in trade ($7 billion in 1979, possibly $10 billion in 1980) and the threat from Japanese imports. Mr Ito issued a tough statement (Annex A) on 18 November which acknowledged the problem but suggested that the cause lay in Europe. The 25 November Foreign Affairs Council then issued a statement in response (Annex B) emphasising the need for action by Japan, in particular on export restraint as a pre-condition for a wide-ranging EC-Japan dialogue. Mr Ito during his visit will not wish to go beyond general points (trade is normally for the Ministry of International Trade and Industry who are taking a tougher line on the EC statement than the Foreign Ministry).

JAPAN: FACT SHEET

Demography

Area 143,750 sq miles, 32% populated (UK: 94,500, 45%).
Population (1979): 115.9 million (Tokyo 8.5m, Osaka 2.7m, Yokoham 2.6m).
Density per sq mile: 798 (UK: 594).
Average persons per room: 0.9 (UK: 0.6).
Life expectancy (1976): 74.75, 1947:52.
Birth rate (1977): 15.5 (UK 11.8).
School leavers entering higher education 34.3% (UK: 21.8%).
Televisions per 1000 people: 235 (UK: 320).
Cars per 1000: 164 (UK: 255).

Economy

GNP (1979): US$1011.6 billion, 18% foreign trade and 28.3% public sector (UK: 32% and 34.7%).
Growth rate of GNP: 1979 6.0% 1970-79 average 5.4%.
GNP per capita (1979): US$8728 (UK: US$6998).
International Reserves (April 1980): US$18246 million.
Unemployment (Nov 1980): 2.0%
Inflation (Nov 1980): 7.9%
Imported Energy: 88% of total energy requirement (met by oil 84%, coal 12%, LNG 4%)
Nuclear: 2% of total energy.

Trade

	1979 ($ billion)	1978 ($ b)	% change
Total Exports	101.0	95.6	+5.8
Total Imports	99.1	71.0	+40.0
Current Account Balance	-8.4	+16.5	-151.0
Overall Balance	-16.7	+8.2	-302.0

Main export markets 1979: USA 25.8%, South Korea 6.1%, Taiwan 4.2% FRG 4.1% (UK 3.0%).

UK/Japan Trade

	1979 (£ million)	1978 (£ m)
Exports to Japan	606	542
Imports from Japan	1490	1283
Trade Balance	-884	-741
Invisible Balance		+100 (est) (1976 £125m)

Budget

Government Expenditure 1979/80: 39,700 billion yen (US$181.1 billi of which education 10.8%, social services 19.1%, defence 5.3% (current strength of Self Defence Forces 240,000), support for industry 8.1%, overseas aid 2.5%. (1979 aid disbursements:

/US$

US$2638 million (IBRD estimate), 0.26% of GNP - UK 0.52%, DAC average (1978) 0.32%

Diet (Results of Elections held on 22 June)

Party strengths: Liberal Democratic - Lower House 284, Upper House 135;
Japan Socialist - 107, 47;
Komeito - 33, 26
Democratic Socialist - 32, 12
Japan Communist - 29, 12
New Liberal Club - 12, 2
others - 14, 17;
vacancies 0, 1

FAR EASTERN DEPARTMENT
FOREIGN AND COMMONWEALTH OFFICE

November 1980.

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ANNEX A

FRAME EXTERNAL

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UKREP BRUSSELS TELNO 4968: EC/JAPAN

FOLLOWING IS ADVANCE TEXT OF STATEMENT BY THE MINISTER OF FOREIGN AFFAIRS, MR ITO, ON EC/JAPAN ECONOMIC RELATIONS EMBARGOED UNTIL 6PM (0900Z) MONDAY, 17 NOVEMBER.

BEGINS:-

'1. THE GOVERNMENT OF JAPAN WELCOMES THE INCREASINGLY CLOSE RELATIONS BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES WHICH ARE RECENTLY WITNESSED IN BOTH POLITICAL AND ECONOMIC FIELDS. IT IS THE INTENTION OF THE GOVERNMENT OF JAPAN TO FURTHER PROMOTE SUCH CLOSE RELATIONS FROM THE PERSPECTIVE OF CONSOLIDATING THE COOPERATION BETWEEN INDUSTRIALIZED COUNTRIES SHARING THE COMMON BASIC PHILOSOPHY OF RESPECT FOR FREEDOM AND DEMOCRACY. THE GOVERNMENT OF JAPAN BELIEVES THAT, IN PROMOTING THE CLOSE COOPERATION, THE GUIDING PRINCIPLE IN TRADE RELATIONS SHOULD BE THE DETERMINATION TO MAINTAIN AND IMPROVE THE OPEN AND MULTILATERAL WORLD TRADING SYSTEM AND TO AVOID PROTECTIONIST MEASURES AS STATED IN THE NEW DECLARATION ON TRADE POLICY ADOPTED BY THE GOVERNMENTS OF THE MEMBER COUNTRIES OF THE ORGANIZATION OF ECONOMIC COOPERATION AND DEVELOPMENT.

2. ON THE OTHER HAND, THE GOVERNMENT OF JAPAN RECOGNIZES THAT CONCERN PRESENTLY EXISTS IN THE EUROPEAN COMMUNITIES THAT AGAINST THE BACKGROUND OF CURRENT ECONOMIC DIFFICULTIES, DEVELOPMENTS WITHIN THE EUROPEAN COMMUNITIES WHICH THREATEN THE PRINCIPLE OF FREE TRADE MAY POSSIBLY BE INTENSIFIED DUE TO THE TRADE IMBALANCE WITH JAPAN AND THE RAPID INCREASE OF IMPORTS FROM JAPAN IN SOME SECTORS DURING THIS YEAR.

3. THE GOVERNMENT OF JAPAN MAINTAINS THE BASIC POSITION THAT THE TRADE BALANCE SHOULD BE VIEWED ON A GLOBAL BASIS AND THAT INVISIBLE TRADE AND OTHER ACCOUNTS SHOULD BE CONSIDERED WHEN DISCUSSING BALANCE OF PAYMENTS PROBLEMS. THE GOVERNMENT OF JAPAN IS ALSO OF THE VIEW THAT THE ALLEGATION ATTRIBUTING THE PRESENT ECONOMIC DIFFICULTIES FACING THE EUROPEAN COMMUNITIES TO THE INCREASE IN JAPAN'S EXPORTS TO THE EUROPEAN COMMUNITIES IS NOT WELL FOUNDED.

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4. THE GOVERNMENT OF JAPAN MAINTAINS THE VIEW THAT THE TRADE IMBALANCE BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES SHOULD BE IMPROVED BASICALLY BY INCREASING EXPORTS FROM THE EUROPEAN COMMUNITIES TO JAPAN AND THAT GREATER EFFORTS ON THE PART OF ENTREPRENEURS IN THE EUROPEAN COMMUNITIES ARE THE PRIMARY REQUIREMENTS FOR MEETING THIS END. IF ENTREPRENEURS IN THE EUROPEAN COMMUNITIES EXPERIENCE ANY DIFFICULTIES IN PENETRATING THE JAPANESE MARKET, THE GOVERNEMENT OF JAPAN CONSIDERS IT USEFUL TO STUDY, TOGETHER WITH THE COMMISSION OF THE EUROPEAN COMMUNITIES , THE SPECIFIC CASES AS THEY OCCUR.
ON THE OTHER HAND, IN VIEW OF THE CURRENT SITUATION OF THE WORLD ECONOMY, THE GOVERNEMENT OF JAPAN HAS NO INTENTION TO TAKE POLICIES SPECIFICALLY AIMED AT REDUCING RAPIDLY ITS CURRENT ACCOUNT DEFICITS. RATHER THE GOVERNMENT OF JAPAN HAS BEEN ENDEAVOURING TO MANAGE THE ECONOMY WITH DUE ATTENTION TO THE ESTABLISHMENT OF HARMONIOUS EXTERNAL ECONOMIC RELATIONS AND WILL CONTINUE TO TAKE, IN THE MEDIUM AND LONG TERM AS WELL, THE POLICY OF BASICALLY PURSUING A GROWTH PATTERN CENTERING UPON DOMESTIC DEMAND. FURTHERMORE, THE GOVERNMENT OF JAPAN WILL CONTINE TO ADVISE PRIVATE ENTERPRISES NOT TO EXPORT SPECIFIC GOODS TO THE MARKET OF ANY REGION IN A TORRENTIAL MANNER.

5. THE GOVERNMENT OF JAPAN BASICALLY APPRECIATES THE NEW INITIATIVE BEING TAKEN BY THE COMMISSION OF THE EUROPEAN COMMUNITIES ON TRADE POLICY TOWARD JAPAN FOR IMPROVING THE ECONOMIC RELATIONS BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES TO BE MORE OPEN. IF THE COMMISSION OF THE EUROPEAN COMMUNITIES WILL MAKE A CONCRETE PROPOSAL IN THIS REGARD, THE GOVERNMENT OF JAPAN IS PREPARED TO STUDY IT.

6. THE GOVERNMENT OF JAPAN WISHES IN FUTURE TO EXPAND ITS COOPERATION WITH THE EUROPEAN COMMUNITIES IN FIELDS SUCH AS INDUSTRIAL COOPERATION AND NORTH-SOUTH DIALOGUE AS WELL AS IN THE FIELD OF TRADE, THEREBY CONSTRUCTING A BROADER RELATIONSHIP BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES.'

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ANNEX B

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RELATIONS WITH JAPAN (Council statement)

The Council expresses its serious concern at the present state of trade between Japan and the Community and its likely future development.

It finds that the penetration of European Community products on the Japanese market remains inadequate.

It further considers that Japanese competition by its nature and the extent of the effort behind it and by its concentration on a small number of particularly sensitive sectors leads to an imbalance which places a strain on the normal development of international trade. The Commission, in conjunction with the Member States, should undertake a detailed analysis of the concentration of Japanese exports to the Community, and, more generally, of the industrial and commercial strategy of Japan.

The Council therefore agreed on the need for a wide-ranging dialogue between the Community and Japan based on a common strategy.

Fundamental to this approach should be the concept that Japan should not attempt to deal with the balance of payments deficit caused by recent oil price increases by an exaggerated export drive, and that it should as a matter of urgency increase its imports of Community products.

In order to promote this dialogue certain developments are essential. These should be :

(i) in the sectors where a continued increase in Japanese exports to the European Community would lead to difficulties there needs to be effective moderation designed to produce early and tangible results. This should apply towards the European Community as a whole and not only to certain markets ;

(ii) the yen should reflect the fundamental strength of the Japanese economy ;

(iii) there should be no new measures on the part of the Japanese authorities to restrict imports. Indeed, there should be a clear commitment on the part of the Japanese Government to a substantial and early increase in the imports of Community products. The Japanese authorities should facilitate opportunities for European investment and banking in Japan ;

(iv) in relation to imports, regard should be paid by the Japanese authorities to avoid measures or policies which give other major trading partners more favourable treatment than is given to the Community ;

(v) on the European side further progress must be made in getting European industries to develop positive strategies to deal with Japanese competition, including not only restructuring in Europe but also by greater involvement in the Japanese market.

To the extent that tangible progress in these areas is made, certain possibilities in relation to liberalisation on both sides could be explored.

In addition, there should be discussions - including in particular discussions between the businessmen and firms concerned - on industrial cooperation, including conditions for investment both in Japan and the Community, facilities for joint ventures and the transfer of technology.

On this basis and in the light of further studies carried out in conjunction with Member States, of both general and specific problems, the Commission will pursue its forthcoming discussions with the Japanese authorities. It will do this in close contact with Member States, in particular the 113 Committee and will report back to the Council before the end of February 1981.

The Council will be informed continously about the results of the dialogue. The Council will give the Commission at any particular time and in the light of the results of these efforts the necessary directives for the negotiations.

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With regard to the seventh paragraph of the above statement which reads as follows:

> "To the extent that tangible progress in these areas is made, certain possibilities in relation to liberalization on both sides could be explored."

the Council agreed to publish <u>the following statement in its minutes</u>:

"In particular the possibilities which have been outlined in respect of TV sets and tubes could play a part in securing the launching of this process."
