

210  
FROM: SIR G. LITTLER  
DATE: 1 AUGUST, 1985

NOTE FOR THE RECORD

CALL BY JAPANESE AMBASSADOR

The Japanese Ambassador called on me at 3.30 p.m. on Wednesday, 31 July. I understand that he had called on Mr. Rifkind during the morning, and that much of the discussion was very similar.

2. The Ambassador took me at rather tedious length through the statement of the previous day by Prime Minister Nakasone on the Japanese action programme for liberalisation.

3. I said that we would of course want to study the details of the proposals more carefully; that I would not comment at all on the measures designed to affect merchandise imports; but that I would like to make two or three other comments:

- the direction of the measures was obviously welcome, but the speed of action promised was in some respects disappointing, given the scale and urgency of the problem;
- I was particularly disappointed that the package of measures in relation to financial markets contained nothing which had not previously been promised in the British and American bilateral negotiations with Japan, and the gradual and piecemeal nature of the changes did not seem to me to promise early substantial effects;
- I noted with interest the intention to expand the Japanese aid programme, and expressed the strong hope that this would not be tied to Japanese exports, or to the combination of Japanese and non-competitive developing country exports;
- on a separate but related theme, I told the Ambassador of the meeting I had held in Paris the previous week with Vice-Minister Oba, in which I had represented to him the extreme disappointment and rising irritation in London over the failure of the Japanese authorities to make further progress in admitting British houses to licences to deal in securities in Tokyo.

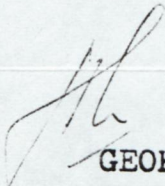
Each point was briefly discussed and the Ambassador took note.



4. The Ambassador then complained about remarks reported to have been made by the Prime Minister on her recent visit to Washington, to the effect that the Japanese authorities were deliberately keeping the yen exchange rate low, and that her view on this was widely shared among other industrial countries. He challenged me to quote any statement by Finance Ministers of industrial countries to this effect.

5. Picking up one particular point he made, I said that I certainly could not quote any criticism that in very recent years the Japanese authorities had intervened in the foreign exchange market with the object of artificially depressing the value of the yen. I would also not dispute his suggestion that the present relationships between major currencies, which were widely believed to be in disequilibrium, owed a great deal to the mix of policies in the United States. However, I said that there was also a very widely held feeling among Finance Ministers in Europe, and it was the view of the United Kingdom authorities that the structure of Japanese regulations on capital account transactions was very heavily biased; there was virtually unlimited freedom for capital outflow combined with extensive restraint on capital inflow. This must have an effect in holding down the value of the yen. Moreover, Japanese statistics showed that the Japanese had invested some \$48 billion in the United States last year, with only modest offsetting flows in the opposite direction, and this had been and continued to be an important element in maintaining the high value of the dollar in relation to the Yen and other currencies.

6. The Ambassador noted my comments and accepted that they were valid points, but nevertheless regretted that the Prime Minister had spoken in terms which had caused much resentment in the Japanese press and among his authorities at home.

  
GEOFFREY LITTLER

cc PS/Chancellor  
PS/Economic Secretary  
Sir Peter Middleton  
Mr. Lavelle (o/r)  
Mr. Fitchew  
Mr. Kelley (o/r)

Mr. A. Turnbull, No. 10 ✓  
Mr. Cary (FCO-Mr. Rifkind's Office)  
Mr. Loehnis, Bank of England  
Mr. Caines, DTI





Your Ref

Prime Minister

(2)

with compliments

↓ G. LITTLE

Treasury Chambers

Parliament Street

London SW1P 3AG

Tel: Direct Line 01-233

Switchboard 01-233-3000

Law points  
are clearly  
getting through  
and making the  
Japanese squirm  
11P COP