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TELNO 1187

OF 090558Z DEC 86

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YOUR TELNO 342 (NOT TO ALL): CALL ON PRIME MINISTER NAKASONE

SUMMARY

1. MR NAKASONE HOPED THAT ANA'S PURCHASE OF AIRBUS A320 WOULD LEAD TO FURTHER SALES OF EUROPEAN MANUFACTURED GOODS TO JAPAN. THE JAPANESE GOVERNMENT WOULD CONTINUE ITS EFFORTS TO OPEN UP THE JAPANESE MARKET BUT FOREIGN EXPORTERS NEEDED TO TRY HARDER. HE WELCOMED CLOSER ANGLO/JAPANESE POLITICAL COOPERATION.

DETAIL

2. WHEN I PAID MY INITIAL COURTESY CALL ON MR NAKASONE ON 8 DECEMBER, HE BEGAN BY CONGRATULATING ME ON ANA'S DECISION TO PURCHASE THE AIRBUS A320 (MY TELNO 1183). HE HOPED THAT THIS SUCCESS WOULD PAVE THE WAY FOR FURTHER SALES OF BRITISH MANUFACTURED GOODS. FOR ITS PART, THE JAPANESE GOVERNMENT WOULD CONTINUE ITS EFFORTS TO OPEN UP THE JAPANESE MARKET AND TO PROMOTE STRUCTURAL CHANGE OF THE JAPANESE ECONOMY. IN PARTICULAR, THE MINISTRY OF FINANCE WERE TRYING HARD TO DEVISE A NEW TAX REGIME FOR ALCOHOLIC BEVERAGES, INCLUDING WHISKY.

3. I REPLIED THAT ANA'S DECISION IN FAVOUR OF AIRBUS DEMONSTRATED THAT EUROPEAN INDUSTRY COULD MANUFACTURE PRODUCTS SUITED TO JAPAN. BRITISH FIRMS LIKE GEC, BAE AND SMITHS INDUSTRIES WERE KEEN TO DO BUSINESS HERE. BRITISH INDUSTRY WOULD ALSO BE LOOKING FOR OPPORTUNITIES TO PARTICIPATE IN THE SECOND STAGE OF THE KANSAI AIRPORT PROJECT. WE WELCOMED THE PROSPECT OF A CHANGE IN THE LIQUOR TAX REGIME AND HOPED THAT A NON-DISCRIMINATORY SYSTEM COULD BE INTRODUCED, PREFERABLY THROUGH THE REMOVAL OF GRADING.

HOWEVER, I ADDED THAT MY EXPERIENCE IN JAPAN, WHERE I HAD SERVED FOR 12 OF THE LAST 30 YEARS, SUGGESTED THAT WHEREAS IN BRITAIN WE WERE GENERALLY PREPARED TO OPEN OUR MARKETS TO COMPETITION, NOT ONLY FOR ITSELF AND THE FREE TRADING SYSTEM BUT IN ORDER TO BRING ABOUT CHANGE, JAPAN APPEARED ALWAYS TO WANT TO ORGANISE THE PACE AND LIMIT OF CHANGE BEFORE IT PERMITTED REALLY FREE FOREIGN COMPETITION. IN THE PAST, POLICIES TO OPEN THE JAPANESE MARKET HAD NOT BEEN VIGOROUSLY FOLLOWED THROUGH. AT A TIME OF GROWING IMBALANCE IN WORLD TRADE, JAPAN'S TRADING PARTNERS LOOKED TO HER FOR MUCH MORE DRAMATIC CHANGES.

4. MR NAKASONE SAID THAT GOVERNMENTS COULD CREATE A FRAMEWORK BUT ACTION TO REDRESS THE TRADE IMBALANCE RESTED WITH THE PRIVATE SECTOR. EXPORTERS TO JAPAN NEEDED TO TRY HARDER. REMARKABLE PROGRESS HAD

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BEEN MADE IN THE LAST FIVE YEARS TO OPEN THE JAPANESE MARKET. THE JAPANESE GOVERNMENT WAS DOING ITS BEST TO BRING JAPAN'S PRODUCT CERTIFICATION STANDARDS INTO LINE WITH THOSE APPLIED INTERNATIONALLY. ANY COMPLAINTS IN THIS AREA SHOULD BE REFERRED TO THE OFFICE OF THE TRADE OMBUDSMAN. HE RECOGNISED THAT THERE WAS A REAL PROBLEM WITH WHISKY. HITHERTO, IT HAD SEEMED PERFECTLY NATURAL THAT SCOTCH WHISKY, WHICH WAS REGARDED IN JAPAN AS A QUALITY PRODUCT, SHOULD HAVE A HIGH PRICE. BUT HE HOPED THAT CHANGES IN THE LIQUOR TAX WOULD GIVE EXPORTERS THE OPPORTUNITY TO DIRECT THEIR SALES AT A BROADER SEGMENT OF THE MARKET.

5. I POINTED OUT THAT BOTH BRITISH EXPORTERS OF MANUFACTURED GOODS AND BRITISH FINANCIAL HOUSES WERE TAKING THE JAPANESE MARKET VERY SERIOUSLY. WE WELCOMED MOVES BY THE JAPANESE GOVERNMENT TO BRING DOWN TARIFFS, ABOLISH QUOTA RESTRICTIONS AND TO REMOVE NTBS. BUT THE FEELING STILL EXISTED OUTSIDE JAPAN THAT JAPANESE SOCIETY REMAINED TOO SELF-CONTAINED. IF FOREIGN EXPORTERS WERE TO BE ENCOURAGED TO INCREASE THEIR EFFORTS TO PENETRATE THE JAPANESE MARKET, THEY NEEDED TO BE CONVINCED THAT OVER A REASONABLE PERIOD THEY WOULD BE ABLE TO SEE A REASONABLE RETURN FOR THEIR MONEY AND EFFORT. MR NAKASONE ACKNOWLEDGED THAT JAPAN'S HISTORICAL ISOLATION STILL AFFECTED ATTITUDES BUT HE MAINTAINED THAT THE RATIONALISATION AND REFORM OF THE JAPANESE ECONOMY WERE PROCEEDING APACE.

6. IN CONCLUSION, I STRESSED THAT THE BRITISH GOVERNMENT REGARDED ANGLO/JAPANESE RELATIONS AS HAVING A POLITICAL AS WELL AS AN ECONOMIC DIMENSION. YOU WERE LOOKING FORWARD TO YOUR TALKS WITH FOREIGN MINISTER KURANARI ON 12 DECEMBER. THE PAYMASTER GENERAL AND MRS RUMBOLD WERE BOTH PLANNING TO VISIT JAPAN IN JANUARY. WE HOPED THAT MR KURIHARA, DIRECTOR GENERAL OF THE DEFENCE AGENCY, WOULD BE ABLE TO TAKE UP HIS INVITATION TO VISIT THE UK IN 1987 TO REINFORCE THE GOOD RELATIONS BETWEEN THE BRITISH AND JAPANESE ARMED FORCES, ESPECIALLY THE TWO NAVIES. COOPERATION IN DEFENCE EQUIPMENT COULD USEFULLY BE EXPANDED. THERE WAS ALSO SCOPE FOR MORE IN DEPTH DISCUSSION ABOUT REGIONAL ISSUES, AID POLICY AND DISARMAMENT BETWEEN SENIOR OFFICIALS. THE 2000 GROUP MEETING IN JANUARY WOULD HELP BROADEN RELATIONS BETWEEN THE TWO COUNTRIES. MR NAKASONE AGREED THAT SUCH CONTACTS WERE USEFUL AND SHOULD BE ENCOURAGED. HE LOOKED FORWARD TO MEETING THE BRITISH PARTICIPANTS IN THE 2000 GROUP MEETING DURING THEIR STAY IN JAPAN. POST REYKJAVIK, EUROPE AND JAPAN NEEDED TO CONSULT MUCH MORE CLOSELY.

#### COMMENT

7. I GOT THE IMPRESSION THAT THE CONTRAST I MADE BETWEEN THE BRITISH AND JAPANESE APPROACHES TO AN OPEN MARKET SYSTEM MADE SOME IMPACT ON MR NAKASONE AS DID THE EXAMPLES WHICH I GAVE OF BRITISH FIRMS GREATLY EXPANDING THEIR INVOLVEMENT IN THIS MARKET, PARTICULARLY THE FINANCE HOUSES (HENCE HIS RATHER DEFENSIVE RESPONSE ABOUT JAPAN'S HISTORICAL ISOLATION). THESE WERE THE TWO POINTS ON WHICH I LAID GREATEST EMPHASIS. I SHALL REHEARSE THESE LINES WITH ALL JAPANESE MINISTERS WHO I AM MEETING ON MY INITIAL ROUNDS, AS WELL AS POINTING TO THE DANGERS OF PROTECTIONIST MOVES NEXT YEAR BY A CONGRESS DOMINATED BY THE DEMOCRATIC PARTY. SINCE I ARRIVED LAST /MONTH

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MONTH WE HAVE HAD NOT ONLY THE<sup>3</sup>-AIRBUS SUCCESS BUT THERE ARE STRONG INDICATIONS THAT OTHER BRITISH AIRCRAFT MIGHT BE BOUGHT BY THE JAPANESE IN THE NEXT YEAR OR SO. SOME MORE MODEST BUT USEFUL BUSINESS COULD BE CONCLUDED IN THE DEFENCE EQUIPMENT FIELD. TWENTY AIRBUSES DO NOT MAKE A SUMMER, BUT THEY ARE A USEFUL START TO A SPRING.

8. THE IDEA OF A MUCH MORE INTENSIVE AND SUBSTANTIAL SERIES OF VISITS FOR DISCUSSIONS ON POLITICAL ISSUES RECEIVED A WARM WELCOME FROM MR NAKASONE. I HOPE THAT BUSY MINISTERS AND SENIOR OFFICIALS WILL BE ABLE TO FIND THE TIME TO FOLLOW THROUGH ON THIS. I AM ALREADY STRUCK BY THE MUCH GREATER SELF-CONFIDENCE OF THE JAPANESE BY COMPARISON WITH ONLY A FEW YEARS AGO AND HENCE THEIR WILLINGNESS TO GIVE INFORMATION AS WELL AS RECEIVE IT AND TO DISCUSS ISSUES IN DEPTH. HIGH-LEVEL VISITORS FROM THE UK WILL BE MOST WELCOME IN ALMOST ANY FIELD, THE ONLY CONSTRAINT BEING THE TRADITIONAL PREOCCUPATION OF JAPANESE MINISTERS AND SOME SENIOR OFFICIALS WITH DIET PROCEEDINGS WHICH ARE MUCH MORE DRAWN OUT IN JAPAN THAN IN THE UK.

9. THIS WAS A DISCUSSION ALMOST ENTIRELY CONFINED TO BILATERAL ISSUES. THERE WAS THEREFORE NO TIME OR OPPORTUNITY TO RAISE MACRO-ECONOMIC MATTERS. BUT IN RESPONSE TO THE POINT IN YOUR TELNO 942 ABOUT THE LIKELY GROWTH RATE OF THE JAPANESE ECONOMY SUMITA, GOVERNOR OF THE BANK OF JAPAN, WHOM I SAW AT THE END OF LAST WEEK GAVE ME HIS PERSONAL VIEW THAT GROWTH WOULD BE SUBSTANTIALLY LESS THAN 3% THIS YEAR BUT SHOULD REACH ABOUT 3% IN 1987 WITH 3 1/2% BEING CONTRIBUTED BY THE DOMESTIC SECTOR AND -0.5% COMING FROM THE EXTERNAL SECTOR.

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