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Record of a conversation between the Prime Minister and the Japanese Prime Minister at 0920 hours on Monday, 20 September, 1982, in Tokyo

Present:

Prime Minister	Mr. Suzuki
Sir Hugh Cortazzi	Mr. Sakurauchi
Mr. F. Butler	Mr. Miyazawa
Mr. R. Gray	H.E. Mr. Hirahara
Mr. B. Ingham	Mr. Matsunaga
Mr. A.J. Coles	Mr. Kiuchi
Mr. J. Whitehead	Mr. Kato
Mr. A. Donald	Mr. Murata
Mr. A. Bache	
Mr. R. Charlesworth	

Political Co-operation

Mr. Suzuki proposed that, since the two Prime Ministers had had a previous exchange of views, they should proceed immediately to discussion of matters of common interest. He invited the Prime Minister to lead on the question of political co-operation between Japan and the United Kingdom. The Prime Minister said that the UK belonged to a number of organisations which provided for regular consultations between their members - the European Community was one such example. We also had regular bilateral consultations with a number of European countries. This regular and frequent contact meant that if a situation demanding quick action arose, it was possible for action to be taken with relative ease. In the case of Japan, the UK had only one similar link, namely that of the Economic Summit. She doubted whether this was enough. We had recently agreed upon arrangements for officials to have regular discussions about East-West matters, Africa and the Middle East, and aid. She very much hoped that Mr. Suzuki would soon pay an official visit to Britain.

/Mr Suzuki

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Mr. Suzuki agreed that dialogue and consultations should be actively promoted. The need was all the greater in the present fluid world economic and political situation. Japan had active exchanges with the US at the levels of Heads of Government, Foreign Ministers and other Ministers, supplemented by official contact. By comparison, consultation with the West Europeans was not so active. He was convinced this must be improved, particularly with the UK, the "axis of Western Europe". He hoped that the Prime Minister's visit would give further impetus to the strengthening of dialogue and consultation.

China

The Prime Minister suggested that the two countries should aim to take joint action more often. She was conscious that Japan could tell us more, 'e.g.', about China. It was important to us to have a correct presentation of what was happening in China which would one day be a very powerful nation and affect the balance of world affairs.

Mr. Suzuki said that he totally agreed on the need to established a framework of continuous and close dialogue. This should be conducted through diplomatic channels. Since the Prime Minister would soon be visit China, she might like to have his views on current developments there. Japan had watched developments at the recent 12th Party Congress with interest. The main conclusion was that the Deng regime was now "almost established". From another point of view, this meant that

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the faction supporting the cultural revolution had retreated. Further evidence of the same trend was the increase in the number of young leaders who shared Deng's approach, who were now included in the Central Committee. The basic policies of present-day China showed that the influence of Mao had been weakened. But this did not mean that the Deng regime was 100% established. Before the Congress the leadership had contemplated that the senior ruling members would all join an advisory committee. But this aim had not been fully implemented. The Deng regime, which he regarded as consisting of Deng, Hu Yaobang, and Zhao Ziyang, amounted to a system of collective leadership. Their basic aim was to implement the 4 "modernisations". In his speech to the Party Congress, Hu Yaobang had made public the objective of quadrupling agricultural and industrial production by the end of the century. To realise this aim, China needed a peaceful international environment. Their desire to maintain such an environment could be seen in their wish to avoid direct confrontation with the Soviet Union, and further conflict with Vietnam.

He believed that in implementing its modernisation policy, China sought increased cooperation with the Western industrial democracies. It was interested in obtaining capital and advanced technology from the West. It was most desirable that Chinese policies should continue on this course. We should not let China lean towards the Soviet Union. It should be encouraged to continue on the route of cooperation with the West and the promotion of an open China. Japan had been helping with the modernisation programme through yen loans, technical cooperation, trade and commerce, and training Chinese engineers.

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China now had 1b people with ample natural resources including oil and coal. It suffered from poverty and unemployment, but had a bright future as a strong power. Japan's capacity to help was limited. He therefore urged the UK, US and other Western countries to cooperate with the modernisation policies.

Falklands

The Prime Minister said she was most grateful for this account. She wholly agreed with the strategic objective of dissuading China from cooperating with the Soviet Union. The methods Japan had devised were excellent. She would wish to return to the question of Hong Kong later, but now wanted to mention the present situation regarding the Falklands. There had been a misunderstanding between Japan and Britain in the past, but she would now concentrate on the future. We should not find it possible to negotiate with Argentina over sovereignty. We had been in full possession of the islands for 150 years. The people were of British stock. We had sent 103 ships and 27 000 men to the South Atlantic and had suffered casualties. Japan would understand that in those circumstances we could not negotiate over sovereignty. The islanders themselves wished to maintain their British way of life, and their wishes were paramount.

Economic Co-operation

The Prime Minister then suggested that the subject of economic cooperation should be discussed. She was grateful for the rapid translation which Mr. Suzuki had provided of his latest speech on the Japanese economy. She warmly congratulated him on the content of his speech, and his skilful answers to the Press.

On the general economic front, she was concerned that the leaders of the Seven were not planning to meet until June. Was there any possibility of trying to bring the meeting forward? The world recession was deeper, and had lasted longer

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than we had conceived - it was now affecting Japan. The Personal Representatives were due to meet later this year, but she thought we should raise with the US the possibility of bringing forward the next Economic Summit.

Mr. Suzuki said that the world economy was in its worst condition since the Second World War. The recession was serious and was continuing for far longer than had been expected. Versailles had produced no clear prescription for escaping from the recession. But it had given some encouragement by confirming the determination of the participants to maintain free trade in face of the strong trend of rising protectionism and their firm intention to support the GATT Ministerial meeting in November in order to ensure its success. United States interest rates were falling as was inflation. However, he was concerned about the worsening of the unemployment situation. In his recent speech he had explained the difficulties facing the Japanese economy. Current policy was to concentrate on the management of domestic demand. With regard to the Prime Minister's proposal that the Economic Summit should be brought forward, if this found agreement among the rest of the Seven he would also support it. The Prime Minister suggested that this possibility should be raised at the next meeting of Personal Representatives. Meanwhile nothing should be said to the press in order not to embarrass the United States. Mr. Suzuki agreed. He thought that the suggestion of advancing the Summit was a very good one and would direct his Personal Representative accordingly.

Mr. Suzuki said that he wished to state briefly his thoughts on the re-vitalisation of the world economy. He had touched on the issue at Versailles and now wished to make three points.

First, it was necessary to promote joint research and development in advanced technology. This would increase productivity and contribute to stimulating the world economy. He envisaged joint efforts on a bilateral basis between Japan and the United Kingdom, Germany and the United States.

Secondly, we should promote investment, technological advance and industrial co-operation in third countries. He had derived the impression from his visit to Europe that Japan's industrial co-operation with the United Kingdom was the most successful among European countries.

Thirdly, we needed to take account of the developing countries. Their accumulated debt now stood at 500 billion dollars. Their annual repayments of loans and interest amounted to 100 billion dollars. This was a serious obstacle to world peace and prosperity.

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Industrial and trading issues

The Prime Minister said that she would like to respond to Mr. Suzuki's remarks about the international situation and deal with bilateral trading issues within that context. At the Versailles meeting Heads of Government had reaffirmed their faith in the open trading system. Both Japan and the United Kingdom were major exporting countries, and the UK exported an even higher percentage of its national product than Japan. Within Europe, Germany and the UK were perhaps the most open markets, but both were currently suffering from high unemployment, especially the UK. Because the UK was a politically stable country, the situation was accepted reasonably calmly. But there were inevitably demands for protection, especially because other countries were now taking action against the UK, for example the United States over steel and in the special case of the Siberian pipeline.

The Prime Minister said that the forthcoming Ministerial GATT meeting would be a difficult one but it was right to hold such a meeting now. At that meeting it was bound to be pointed out that despite Japan's efforts to increase imports, which were recognised, her balance of payments had moved from a deficit of \$11b. in 1980 to a surplus of \$5b. in 1981, a surplus in the first half of 1982 at an annual rate of \$7b.; and a surplus of \$17-20b. was being forecast for 1983. However great Japan's efforts to increase imports were, the trend of these surpluses was bound to stimulate a rising demand for protection, especially in a country like the UK which was much more open than, say, France.

The Prime Minister said that the issue was how to satisfy such feelings and yet keep the open trading system. She accepted that Japan would do everything possible to maintain an exchange of manufactured goods, but it would remain difficult to deal with the problem of growing Japanese surpluses by this means alone. One way of dealing with responding to the situation would be for Japan to undertake more overseas investment, as the UK had done in the past in order to preserve its trade with

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its former Empire. People would feel better about accepting Japanese goods if they were manufactured in their countries and they had the benefit of the jobs which went with them. Whereas there were a thousand American manufacturing companies in the UK and one hundred and eighty German companies, there were still only twenty-four Japanese companies; but those which had invested in the UK had been highly successful and with Japanese management there had been no serious labour relations problems.

The Prime Minister said that there would also need to be more inter-industry understandings. Such an understanding existed in the motor industry: although people said that the 11 per cent Japanese share of the UK market was too high, they knew that, having reached an understanding, the Japanese would keep to it. She had to mention a specific problem coming up with numerically controlled machine tools: she regretted that this would be a problem since Japan was outstanding in this field and she had been most impressed by her visit to the Fanuc factory. But UK firms had invested heavily in machine tools, had good quality products but had not achieved the necessary volume. The Japanese penetration of the UK numerically controlled machine market had increased from 1 per cent in 1977 to 60 per cent in 1981, and it was clearly impossible to allow the market for UK firms to be destroyed in this way. She would therefore like to arrange for a mission from the UK machine tool industry to visit Japan not later than October to tackle this problem with representatives of the Japanese industry. There were also one or two other areas of concern, including fork lift trucks.

/ The Prime Minister

The Prime Minister said that it was necessary to take action on these matters with a view to reducing the imbalance of trade between the UK and Japan, but the imbalance was such that action on this front was unlikely to be sufficient in itself. She therefore hoped that the Japanese Government would consider seriously buying major capital goods which the UK had to offer. She mentioned particularly the BAe J46 and items of defence equipment like the Harrier and Searchwater radar. These were not matters to be discussed between Prime Ministers and she recognised that orders could not be pulled out of a hat; but there were good UK products in this field which she hoped that the Japanese Government would consider seriously.

Mr. Suzuki said that he would like to touch on industrial co-operation before returning to trading issues. He understood that under the agreement of April 1981 to promote Anglo-Japanese industrial co-operation, the UK had produced 18 project proposals, of which 6 were agreeable to the Japanese, covering robot and other electronic projects. 5 cases were not agreeable and the rest were still under consideration. The

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Japanese had proposed 3 project proposals , on which they were still awaiting a response. The Prime Minister said that she welcomed the agreement on 6 of the British proposals and would ensure that the 3 proposals put forward by the Japanese were urgently pursued. But she hoped that the Japanese would be as active in making proposals as the UK had.

Turning to trade issues , Mr. Suzuki said that the Japanese Government regarded issues of investment and imports as appropriate to be tackled in the first instance between leaders of the industries themselves but , in view of their importance to relations between Governments , the Japanese Government wished to give their support to such discussions and to make every possible effort to contain the pressures for protectionism. He wished to remind the Prime Minister of the measures which the Japanese Government had already taken. First they had implemented two years in advance reductions in tariffs agreed at the GATT Multilateral Trade Negotiations. Second , the Japanese Government had proposed the abolition or reduction of tariffs on 96 products , including high technology products: these proposals were to be approved in the next session of the Diet with the target of implementation from 1 April next year. The Japanese Government had also established an Ombudsman to deal with complaints of non-tariff barriers , and this system would operate positively in dealing with such complaints. With the announcement of the second import package the Prime Minister had made a statement urging Japanese business to welcome foreign products and overseas investment: Mr Suzuki stressed that this was an unusual and significant initiative for him to make such a statement. A conference was being arranged of leading Japanese companies involved in foreign trade , and the Prime Minister intended to reiterate the principles of his statement to that conference in order to ensure that they were understood. Foreign trade missions were also being encouraged to visit Japan.

/ On machine tools

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On machine tools and fork lift trucks, Mr. Suzuki said that the Japanese industries involved were pursuing a policy of prudence on pricing policy on exports to the European Community; and, as the Prime Minister had mentioned, an understanding on the volume of cars exported to the UK market was already in place. He agreed that inter-industry contacts were valuable in dealing with these problems and he would welcome a mission from the British machine tool industry to Japan.

The Prime Minister said that she had seen Mr. Suzuki's statement on imports and investment and recognised that it was a positive statement, which she warmly welcomed. But, of course, the actions taken by the Japanese Government would be judged by their results in terms of UK imports into Japan and Japanese imports into the UK.

Agreement on Technology

Turning to the proposed technology agreement, the Prime Minister said that she agreed that Britain and Japan must give a lead in promoting new technology. All countries faced unemployment difficulties which new technology could exacerbate in the short term; but the present generation could not be the first to turn its back on the opportunities provided by a new industrial revolution. Officials had reached agreement on the press guidance about the intention to negotiate an effective and practical agreement and she proposed that the Prime Ministers should adopt that statement with the intention of reaching a practical and effective agreement which would encourage technological development and exchange. Mr. Suzuki said that he had seen the statement and was in favour of it. He would urge the Japanese agencies concerned to consider the possibilities and hoped that the statement would lead to a good and effective agreement.

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International Financial Situation

The Prime Minister said that she would like to offer a comment on the world banking system. That system was facing many problems. One was the situation in Mexico where neither the outgoing nor the incoming President wanted to take responsibility for the corrective measures necessary. She stressed the importance, in dealing with the varied circumstances of debtor nations, of working through international organisations, particularly the IMF, and firmly supporting the IMF in insisting that such countries adopted prudent policies. Mr. Suzuki fully agreed and said that Japan followed a policy of making economic and technical assistance conditional on the pursuit of prudent policies in the countries concerned. He agreed that the IMF and World Bank should be given full support in promoting the adoption of such policies.

Lebanon

The Prime Minister suggested that she and Mr. Suzuki should have a brief exchange on the situation in Lebanon. She wished to express her abhorrence at the reported large scale killings and said that the British Government would be putting forward their further views through the United Nations. Mr. Suzuki said that he was in agreement with the Prime Minister in deploring the massacre. The reasons for it were as yet unknown, but such horrible savagery had to be condemned. In view of the reports that the massacre had occurred in West Beirut his view was that Israeli forces should immediately be withdrawn. He agreed that the right course was to pursue the matter through appropriate resolutions in the United Nations.

/ Hong Kong

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Hong Kong

The Prime Minister said that she would like to tell Mr. Suzuki a little about how she saw the position on Hong Kong which she was about to discuss with the Chinese Government. She thought that this would be of interest to Japan in view of the investment and joint projects which Japan had in Hong Kong. She believed that it was in the interest of the whole area, and especially of China, that the stability and prosperity of Hong Kong should continue. She saw it as her task to convince the Chinese Government that to maintain the confidence on which stability and prosperity depended, some arrangement needed to be made for the continuance of British administration. Hong Kong rested on a unique partnership between British and Chinese people, and the free enterprise system was an essential element in that partnership: that system depended on a separate currency in Hong Kong and on the British system of law and administration.

There was reason to think that the Chinese Government were under the illusion that the British Government derived revenue from Hong Kong: that was untrue. It was necessary to convince the Chinese Government that if there was any suggestion that the principles on which the economy of Hong Kong rested would not continue, there would be a collapse of the Hong Kong dollar, of property values and of the financial centre. Some switching of funds out of Hong Kong was already taking place because it was known that the lease on the major part of the territories came to an end in 1997. What mattered in this situation was not the view of the Prime Minister or the British Government but the view taken by those who would have to keep their money in Hong Kong.

Mr. Suzuki said that the issue of Hong Kong was primarily a bilateral one between British and Chinese Governments, but because of Japan's economic relations with Hong Kong the

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Japanese Government were deeply interested in it. His advice to the Prime Minister was to deal directly with Deng Xiaoping on the matter, with as few other people present as possible. This advice was based on his experience of dealing with the disputed territory of Senkaku Island on which, when dealing directly with Deng, he had easily reached agreement that the two Governments should co-operate on the basis of their major common interest and leave aside the differences of detail: in consequence it had been agreed that, without raising the matter concretely the status quo should be maintained, so that the issue was effectively shelved. The Prime Minister welcomed Mr. Suzuki's advice on the method to deal with Deng, but commented that in the case of Hong Kong it would not be sufficient to shelve the issue if the confidence of investors in Hong Kong was to be maintained.

Conclusion

Concluding the discussions, the Prime Minister proposed, and Mr. Suzuki agreed, that their press officers should tell the press that very fruitful discussions had taken place in an atmosphere of co-operation and desire to solve the problems rather than to concentrate on difficulties.

A.J.C.

21 September 1982



The two Prime Ministers have noted the progress which has been made in industrial and scientific cooperation between Britain and Japan. They agreed that further efforts should be made in the field of technology. They have accordingly instructed their officials to hold further discussions with a view to preparing a draft text.