

CONFIDENTIAL



PRIME MINISTER

MS

Prime Minister
Mr. Tebbit's account of his
visit to Japan -
understand that he intends
to give Cabinet a brief
summary tomorrow.

CD 24/12.

VISIT TO JAPAN : 15-19 APRIL 1985

My visit, the first by a Secretary of State in the Trade or Industry field since January 1983, came at a significant time. In the light of their current preoccupation with their international trading position, it was regarded by them as an important event. Despite the pressure of Government and party business, and a simultaneous visit by the Dutch Prime Minister, senior Japanese Ministers went out of their way to find time to see me, including the Prime Minister, (who sent his warm regards to you, which I hereby convey) the Foreign Minister and the Ministers for Trade and Industry and Finance. A list of meetings is annexed. Separate records of each meeting have been circulated.

2 Recent events in Japan made the emphasis of my visit necessarily upon trade issues. In response to rising criticism of Japan's increasing trade surpluses coupled with her low propensity to import, reflected most recently in US Congressional pressure for action against Japanese imports and the EC Foreign Affairs Council declaration of 19 March, Prime Minister Nakasone on 9 April announced a further market-opening package. Although this included many of the kinds of limited, though not unimportant, measures contained in its predecessors, such as the promise of tariff reductions and concessions on non-tariff barriers, it represented potentially a significant departure. First it implicitly recognised that the inaccessibility of Japan's market was due to structural or cultural factors as well as formal obstacles. And secondly, it addressed, even if tentatively,

JH1CGY

CONFIDENTIAL



?

the key problem of how Japan's propensity to import might be changed. An Action Programme is to be worked out by July, under the personal supervision of the Prime Minister, to secure results over a 3 year period.

3 The immediate reactions to the package will not have reassured Mr Nakasone. There is scepticism both in Japan and elsewhere about the ability of the Government to manage a fundamental change in the attitude of consumers and industry towards imported goods. And there is concern in the Community that the main measures seem tailored principally to meet US objectives in a number of relatively limited and selected fields.

4 In my meetings, and notably with the Prime Minister, I laid stress on two aspects. First, I warned of the urgency of the situation and for the need for early action that would convince all Japan's trading partners that real and measurable results would be produced. I made no threats on the part of the UK; indeed I said that we perhaps had more understanding of Japan's problems than others. However, I did foresee that, if Japan's surpluses with the US and Community continued to rise and her level of imports remained unchanged, unilateral protectionist measures would be proposed which would not just harm Japan but would threaten the whole of the liberal international trading system upon which the UK, no less than Japan, depended. Secondly, I placed emphasis on the need for the Japanese Government to give a firm lead to industry and consumers in purchasing goods from abroad, for example through its procurement policies. Action could not simply be confined to exalting consumers to change their traditional preference for domestically produced goods. I did, however, show some appreciation of the proposal by MITI to call in 60 leading

JH1CGY



Japanese companies to "explain" the problem and the contribution which they could make - that, in Japanese terms, could represent a powerful instrument for change.

5 I placed most emphasis on the multilateral nature of the problem, although naturally referring to our £2.8 billion deficit with Japan. Nevertheless, I did take the opportunity to advance British interests, principally by illustrating ways beneficial to us in which the Japanese Government could show its determination to increase its ratio of imports and its commitment to the liberalisation of its internal markets. I was able to point to the possibility of advancing the purchase of civil aircraft and referred to the competitiveness of the BAe 146, the Shorts 360 and the Airbus. I cited defence equipment as another area where substantial contracts could be placed, mentioning Sea Harrier and Tornado. In the civil field, I confirmed that our firms were interested in supplying telecommunications equipment, particularly peripheral systems, since that is a sector where the US is clearly intent upon securing a preferential position. And, within the general framework of market liberalisation, I pressed for non-discriminatory treatment for our whisky and tobacco exports.

6 In addition to the need for direct action to change the import balance, I raised the issue of the Yen and the liberalisation of the internal financial market, pointing out that were the Yen free to reflect the underlying strength of the performance of the Japanese economy - and were action elsewhere to be taken to correct the over-valuation of the Dollar - it would be reasonable to expect that the problem of surpluses and deficits would, over time, be largely self-correcting. In Japan's case, what needs to be done is to allow interest rates to fluctuate more freely and to

JH1CGY



develop new financial instruments which would facilitate Yen holdings by overseas investors; ultimately, one would also wish to see the Yen becoming more readily used as the basis for international transactions. I believe that these points are understood by the more internationally and liberally-minded Ministers and officials and the Prime Minister's programme includes a reference to the internationalisation of the Yen. It remains to be seen, however, how far and how fast the Government will be prepared or able to go down this road.

7 A road which they are taking, somewhat more slowly than the Prime Minister professes to wish, is the liberalisation of the financial market; an area in which the City naturally has an especially keen interest. Some progress has been made. Two UK institutions have been granted security dealers' licences and Barclays have applied for a licence to carry out cost banking - I was able to give positive support to their ambitions. But we need to maintain strong and persistent pressure, particularly in view of the risk that the US will persuade Japan to afford her institutions favoured treatment.

8 On the question of a new GATT round, I resisted the idea that action to deal with the "Japan problem" could be left for negotiations in that framework; that would be a further excuse for delay. Nevertheless, I emphasised that all participants, including Japan, would have to come to the table prepared to make significant concessions if the round was to be a success. I confirmed our commitment to making early progress, laying particular stress on the importance of thorough preparation.

9 My assessment, in relation to the question of Japan's

JH1CGY



international trading position and the associated issues of market opening and trade surpluses, is that the Nakasone package was conceived originally as part of a strategy to buy more time and to carry Japan through the period of preparation before a new round. The strength of feeling in the US, and to a lesser degree in the Community, was not foreseen and the Prime Minister has been shocked by the expressions of dissatisfaction at, for example, the OECD Ministerial meeting. He has still to convince all his colleagues of the seriousness of the position and the need for concrete action but there is a growing realisation that promises and token market-opening gestures will not be enough. The difficulty which the Government faces is what to do. I think that the Action Programme will now contain more specific steps than would otherwise have been the case and that the Government may make, perhaps through public purchasing, a demonstration of their intention to buy more from abroad. But it will be hard to make a real impact in the short term, and it is the short term that will count.

10 Our approach must be to maintain the pressure for change but to avoid, so far as we can bring influence to bear, either the US or the Community resorting to precipitate protectionist measures against Japan. That would be immensely damaging to the international trading system; it would end any hope of a new GATT round and would represent yet a further threat to the survival of that institution. These are considerations which will need to be heeded carefully at the Bonn Summit.

11 I will also be raising the question of the US and Community's attitude to Japan during my visit to Washington in two weeks time. I shall explore the possibility of a concerted effort by the US and the Community to speed the

JH1CGY



process of Japan's integration into the international trading and financial system. But I shall equally stress the need for the Administration to resist Congressional pressures for damaging protectionist measures - against any of the US's trading partners.

12 Although trade issues took up the greater time in my discussions, I was able also to impress upon Ministers and senior industrialists the importance which we attach to increasing industrial collaboration between Japanese and UK companies and to attracting investment of a kind that contributes positively to the UK economy through jobs, the transfer of skills and technology, and import substitution. The message was well received, partly because there is, I believe, a real appreciation of the progress which we have made in strengthening the economy, improving the operation of the market and enhancing the profitability of companies. We already account for a high proportion of Japanese (and US) investment in Europe and I believe that we can maintain our rate of success. I took every opportunity to promote interest in the "Britain Means Business" campaign which I launched earlier this month.

Not many
jobs
lost

13 In addition to a general exchange of views with the Keidanrein on trade investment, I met individually the Presidents of Nissan and Honda. With Nissan, I emphasised the importance which we attached to their making maximum use of UK component suppliers both for UK and Japan-built cars and resisted any suggestion that we would be prepared to relax our requirements on imported content. In the case of Honda, I explained why we were not able to come to an immediate decision but assured Mr Kume that we would consider carefully and quickly the recent propositions, within the framework of a revised BL Corporate Plan. Both he, the Prime

JH1CGY



Minister and the Minister for Trade and Industry went out of their way to assure me of their enthusiasm of further collaboration between the companies and showed themselves sensitive to our concern that this should take a form which strengthened BL's future competitiveness and created a positive flow of trade in both directions.

14 I believe that my visit will prove useful. Its timing lent force to the message delivered and I hope that I have done something to counteract the tendency of Japan to place rather too much weight on her relations with the US to the exclusion of the Community's interests.

15 I was left in no doubt of our current standing. We are regarded as a friend but a firm and critical one. That is a position which we must maintain.

16 Finally, I would record my thanks to Sir Sydney Giffard and his staff both for the careful preparation for my visit and for the expert support given during my stay. Our interests in Japan, not least in the trade and commercial field, are very efficiently and effectively served.

17 I am sending copies of this minute to Geoffrey Howe, Nigel Lawson, Peter Walker, Michael Heseltine, George Younger, Nicholas Edwards, Nicholas Ridley, David Young, and to Sir Robert Armstrong, Sir Michael Butler and our Ambassadors in Washington, Tokyo and Bonn.

N T

April 1985

JH1CGY

Department of Trade and Industry



VISIT OF SECRETARY OF STATE FOR TRADE AND INDUSTRY
TO JAPAN : 15-19 APRIL 1985

LIST OF MEETINGS:

Mr Nakasone,	Prime Minister
Mr Abe,	Foreign Minister
Mr Takeshina,	Minister of Finance
Mr Murata,	Minister of International Trade and Industry
Mr Komoto	Minister for Market-Opening Measures
Mr Kaneko	Director, Economic Planning Agency
Mr Sato	Minister for Posts and Telecommunications
Keidanren	(Some Thirty or so Leading Industrialists)
Mr Ishihara	Nissan
Mr Kume	Honda

JH5AZJ



Lunch with Mr Esaki and other Members of The Special Research
Council on External Economic Affairs of The Liberal
Democratic Party

Lunch with Leading Representatives of Japanese Financial
Institutions.

CONQUEROR



JH5AZJ

24 APR 1985

12
11
10
9
8
7
6
5
4
3
2

COMMUNIST