

CONFIDENTIAL

OD(E)(81) 7#

4.6.81

Japan
Item 3.

CONFIDENTIAL

3. TRADE RELATIONS WITH JAPAN

The Sub-Committee considered a Note by the Secretary of State for Trade (OD(E)(81)17) to which was attached a paper by officials reappraising our trade relations with Japan and suggesting the objectives that the United Kingdom should pursue in the series of forthcoming bilateral contacts with the Japanese Prime Minister and other Ministers, renewed discussion in the Council of Ministers, in the European Council and at the Ottawa Economic Summit.

THE SECRETARY OF STATE FOR TRADE said that the need to reappraise our trade relations with Japan stemmed from the growing Japanese commercial threat and in particular, the fear that the recent arrangements to curb Japanese imports of motor cars into the United States might result in a deflection of trade to the European Community. There was need to determine the principles that should guide government policy in the months ahead, including the Ottawa Summit. It was less the bilateral imbalance in trade than Japan's heavy concentration of exports in particular sectors and her impenetrable home market that were causing anxiety. Competition of this kind between the centrally directed Japanese commercial challenge and the liberal economies of the West had not been envisaged when the General Agreement on Tariffs and Trade (GATT) had been concluded and raised the question whether the GATT was adequate to meet the resulting strains on the world's economy. The proposals in OD(E)(81)17 were modest, being designed to persuade the Japanese of the damage they were inflicting on the West and the present economic system. Our objectives should be in concert with our Community partners to get the Japanese to modify their policy of concentration on target sectors, show more determination to open up their market to imports and participate in our economy by investment and technology transfer. Such a strategy would be slow in producing an effect and would not deal with the immediate problem of accelerating Japanese exports. Although we should continue to rely on our existing Voluntary Restraint Arrangements (VRAs) with the Japanese we should recognise that they might break down. We should therefore press on with establishing a Community policy for surveillance and restraint and, in the absence of action on a Community basis, secure Community authority for whatever British Government action was thought necessary to sustain our VRAs.

CONFIDENTIAL

CONFIDENTIAL

In discussion of the case for action, it was recognised that Japan needed to run a substantial trade surplus on manufactured goods to finance her import of food and raw materials, particularly oil. The United Kingdom itself had a large visible surplus with some countries eg Nigeria which offset our deficit with Japan. There was therefore no need to aim for bilateral balance. Action was nevertheless needed, given that Japan was now moving into net balance of payments surplus, that her economy was continuing to expand, and that her exports were in areas where future hopes for our own recovery should lie. Moreover with the destruction of some sectors of British industry eg small ship radars, the domestic pressure for an effective Government response was becoming more strident. It would none the less be difficult to persuade the Japanese to change their strategy, which was designed to enable their massive investment in research and development to be recouped.

In discussion of the means at our disposal to counter the Japanese commercial threat it was suggested that it would be wrong to seek to establish a protective regime against the Japanese. The United Kingdom was itself heavily reliant on an open trading system. But the Japanese were responsive to proposals for industrial co-operation and were already collaborating in a number of useful projects eg in the manufacture of video equipment. Chemicals was also a promising area. There were already 23 Japanese companies engaged in manufacturing activities in the United Kingdom; we should continue to encourage Japanese participation in the British economy by investment and technology transfer and by developing a firmer relationship with domestic component suppliers, despite the suspicions of our Community partners. We should also take advantage of comparative Japanese weakness in innovative thinking to seek collaboration as early as possible in the research and manufacturing process. It might also be worth exploring the possibility of a package deal with Japan, on the lines of the agreement reached between the United States and Japan by the Nixon administration which had given major American companies access to the Japanese market. It was also suggested that we should consider emulating some of our Community partners in taking administrative action to discourage imports from Japan; but it was pointed out that in the United Kingdom such a course would probably be frustrated by legal action. We should rather seek at a high level to mobilise the Community, whose

CONFIDENTIAL

CONFIDENTIAL

potential strength the Japanese respected, in achieving our objectives. This would not be easy in view of member states' differing attitudes and the tradition in some of relying on national action. It would also be essential to raise the subject at the Ottawa Economic Summit, particularly as there was evidence that the Japanese who usually set more store by their relations with the United States than with the Community, were likely to feel serious embarrassment at our doing so.

THE FOREIGN AND COMMONWEALTH SECRETARY, summing up the discussion, said that the Sub-Committee endorsed the proposals in paragraph 14 of the Secretary of State for Trade's memorandum and the conclusions of the attached Note by Officials. It would be important to bring pressure to bear on the Japanese in the coming months, in particular at the Ottawa Economic Summit; to mobilise the Community in support of our objectives; to concert our position with the United States Government; and so far as practicable to exploit the United Kingdom Presidency for these purposes.

The Sub-Committee -

1. Took note, with approval, of the Foreign and Commonwealth Secretary's summing up of their discussion.
2. Instructed officials to be guided accordingly in preparing briefing for the forthcoming bilateral contacts with Japanese Ministers, and for renewed discussion in the Council of Ministers, the European Council and at the Ottawa Economic Summit.
3. Instructed officials to keep the United Kingdom's trade relations with Japan under review and to seek further Ministerial guidance as necessary.

Cabinet Office

5 June 1981

CONFIDENTIAL