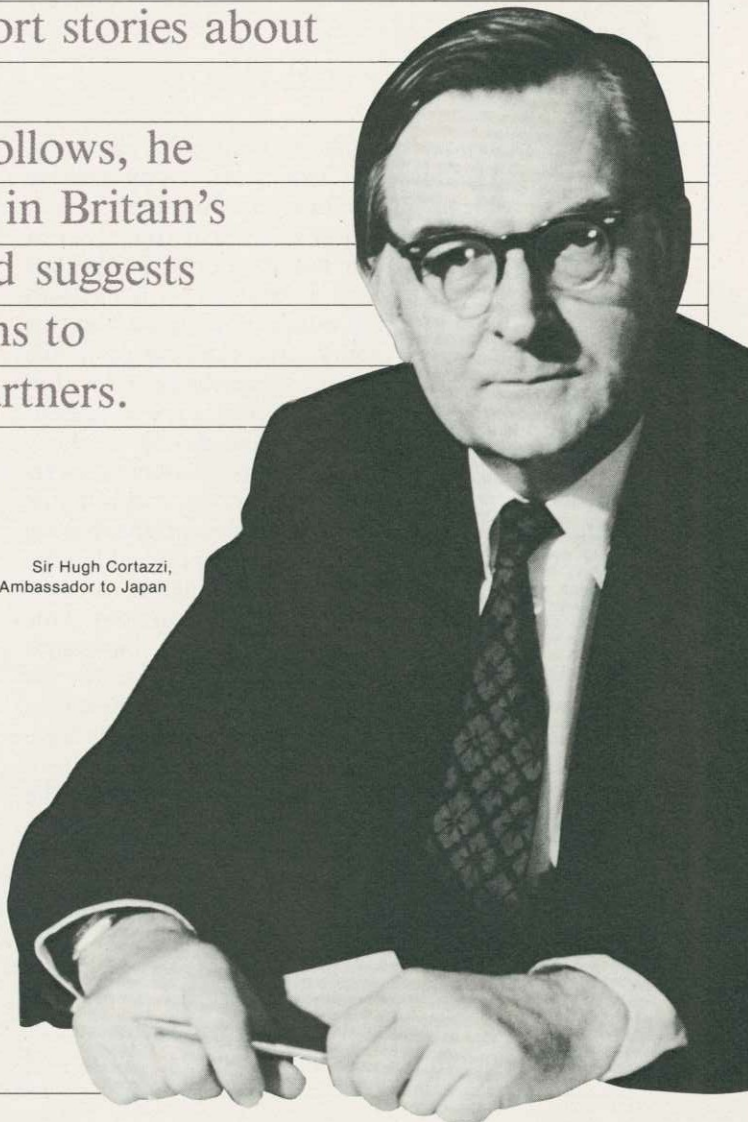


Britain and Japan

Sir Hugh Cortazzi has been Her Majesty's Ambassador to Japan for three years. Yet his involvement with Japan goes back four decades to his 1943 enrollment in Japanese language classes at the University of London. Joining the Foreign Office in 1949, he was posted to Japan several times in the 1950s and 1960s before finally achieving the rank of Ambassador in 1980. An accomplished Japanologist in his own right, he is also the translator of several books of short stories about Japanese middle-class life.

In the candid discussion which follows, he reviews some of the frustrations in Britain's trade relationship with Japan and suggests ways to alleviate these frustrations to the long-term benefit of both partners.

Sir Hugh Cortazzi,
British Ambassador to Japan



Japan's relations with Britain date back to 1600 with the arrival of William Adams. But it was only with the opening up to the West of Japan in the middle of the nineteenth century that the two countries began to have a real interest in one another. British advisors contributed greatly to the development of Meiji Japan in a wide range of activities, from education to engineering. In 1902 the Anglo-Japanese Alliance was concluded and in the early years of this century our relations were particularly close. Unfortunately these relations were disturbed by Japanese military expansion, resulting in the tragedy

of war. Since 1945 Japan has inevitably looked more to the United States than to Europe; but there is increasing recognition in Japan of the importance of Europe and in particular of Britain within Europe. This has been matched by growing awareness on the European side, especially in Britain, of Japan's importance in the world. We share many common interests, not least in the maintenance of world peace and the stability of our democratic systems. This is not the place to discuss the threats posed to these shared interests from the Soviet Union or about the nature of the necessary response, but I would like to make a few general points. We must both continue to play a major role in ensuring the stability of the international financial system, which remains under threat as a result of the mounting debts of the developing world. We must also continue, through our aid programmes, to make contributions toward improving the welfare and economic prospects of the poorer countries of the world. In order to play an effective political role, we must work hard to ensure that our policies are adequately coordinated through increased political cooperation. We need to make greater efforts to understand one another. This means better communication and more exchanges of people.

C Contrasting situations

Our common interests make it all the more important that we should find ways of dealing effectively with the economic problems which have unfortunately developed between our two countries. These are the result of the huge imbalance which has developed in the last decade or so in our balance of trade. This is likely to reach some two and a half billion pounds sterling this year (\$3.7 billion). Of course, the classical economic answer to this should be changes in exchange rates; but for a number of reasons, this solution is not at present available to us. Why, it may be asked, should we worry about such a bilateral trade imbalance? Surely the overall balance of payments is what matters and not just bilateral trade? Theoretically this may be right, but we have to be practical and understand the political factors involved. The fact is that over three million (or over 13%) of the British workforce are without jobs. One element in this unemployment is the trade imbalance with Japan. Japanese exports of motorcycles, for instance, are considered to have caused the disappearance of the British motorcycle industry. Similar fears have been expressed about other traditional industries from shipbuilding through motorcars to electronics. The problem is exacerbated by the lack of growth in the European and British economies. These contrast with real growth in the Japanese economy combined with what seems from Europe to be very low levels of unemployment. The contrasting situations in our two countries have led to increasing pressure in Britain for protection against Japanese imports and to accusations that Japan has been exporting unemployment to Britain.

Britain has traditionally been a supporter of free and

fair trade. The British government wishes to maintain that posture and believes in free enterprise and competition. But every government has to give first priority to the promotion of the interests of its people and there are inevitably limits to the extent to which free trade can be maintained in a period of serious bilateral imbalances.

It is against this background that we have to consider how best to alleviate the problems caused by the imbalance and to move toward a better balance of economic advantage between our two countries than has been achieved heretofore.

I Import promotion needed

The basic approaches have been described many times before. They have to be a combination of three main elements. These are, firstly more imports of manufactured goods from Britain into Japan; secondly, continuing export restraint on the part of Japan; and thirdly, more industrial collaboration, including in particular more productive investment in Britain. I welcome the steps which the Japanese government has taken to remove non-tariff barriers and to reduce tariffs. The establishment of the office of the Trade Ombudsman was also a useful step. We have been particularly gratified by the calls made by Mr. Nakasone and his predecessor, Mr. Suzuki for an increase in manufactured imports into Japan. This shows that the Japanese government recognizes that the barriers established during the 1950s and 1960s, when Japan was developing its own industries behind protective walls, were not only no longer needed but were positively damaging to Japanese interests. Unfortunately, however, the removal of these barriers has yet to show results in the statistics of imports. Until there is a real and significant increase in imports into Japan, there will continue to be real problems in our economic relations.

It is sometimes suggested that apart from a few consumer goods, we have nothing to sell to Japan which Japan cannot make for itself or which Japan needs. In my view this is just not true. We have produced a long list of products in both the capital goods and consumer goods fields where we know that we are competitive from our sales in third countries and where there is clearly a potential demand in Japan.

It has also been suggested that we, like our other European partners, don't try hard enough. This, too, is just not true. The British government has devoted more resources to export promotion to Japan than to any other market in the world. But it is not only the British government which has been trying hard; it is British exporters, too. We have a large number of trade missions every year coming to Japan looking for sales outlets. I know of many companies who have done detailed studies of the Japanese market and produced goods specifically to meet Japanese demands. Large numbers of our firms have taken part in Japanese trade fairs. We have British consumer goods promotions taking place at department stores throughout Japan. We intend to

redouble our efforts; but one of the problems which our companies face is the cost of exporting to Japan. We know that it takes time to penetrate the Japanese market, but when a company faces recession at home, it simply has not the resources to spare for promotion in a market where it may take many years to achieve a profit. Of course, if we were in boom conditions things would be different, but, alas, there is no sign of a boom in the foreseeable future.

So we have suggested to the Japanese authorities a series of measures to promote imports by discriminating in their favour. I recognize that these suggestions present a number of problems, but I hope our Japanese friends will consider them positively and carefully. Many are unprecedented, but we have an unprecedented situation calling for unprecedented measures.

Less "torrential" exports

Turning to the second issue of export restraint, I am conscious of the fact that a significant part of Japanese exports to Britain is covered by voluntary arrangements entered into between our respective industries. I think this is a good approach in present circumstances, but the fact remains that many industries in Britain still feel threatened by Japanese competition and unfortunately the figures continue to show that Japanese exports to Britain in a number of important areas are rising significantly. I remember, shortly after I arrived in Japan as Ambassador, the undertaking given by Japanese ministers at that time that the Japanese government would refrain from concentrated and torrential exports. I would ask my Japanese friends whether the statistics show that this undertaking has been adhered to. Certainly, as seen from Europe, it doesn't seem to be so. This is not, of course, just a matter for governments. It is very much a matter for individual firms and groups of firms. Here I would urge that Japanese trade associations and companies should try to look at the matter in a longer-term perspective. If they do continue concentrated and torrential exports, markets will close or they will succeed in bankrupting the countries to whom they are exporting. Thus, to use an English phrase, they will kill the goose that laid the golden egg.

Industrial and technical collaboration

During the last three years, we have put particular emphasis on industrial collaboration. I am glad to say that there have been some significant decisions about investment in Britain; but the fact is that Japanese investments in Britain are still on a very small scale—some 25 Japanese firms employ about seven thousand people. Investment from the United States and Ger-

many is on a much greater scale. As seen from Britain, it looks as though Japan has only just begun to recognize the importance of manufacturing in countries where imports are causing major concern. I should like to see the number of Japanese companies investing in Britain at least doubled in the next few years. At the same time, I would hope that the number of people employed by Japanese companies in Britain would increase vastly. I hope, too, that Japanese companies will not just manufacture in Britain established products but will try to develop integrated facilities, including research and development of new products. I believe that the environment in Britain is an excellent one for Japanese investment. Our inflation rate is right down, wage demands have been vastly moderated and labour relations greatly improved. Japanese executives settling in Britain receive a warm welcome wherever they go to invest. The British government firmly welcomes Japanese investment that contributes to employment, exports or import substitution.

But industrial cooperation is not just a question of investment; it is also a matter of technical collaboration. Japan has received great benefits from purchasing licences from abroad. The time has now come when Japan should take much more positive steps to export her technology and know-how. This would perhaps best be done through tie-ups between Japanese and British companies. There are a number of significant examples, not least Fujitsu and ICL, Honda and British Leyland, Thorn-EMI and Japan-Victor, etc. Unfortunately, as seen from Britain, the efforts which have been made by our Department of Trade and Industry in discussions with the Ministry of International Trade and Industry have not led quickly enough to actual results.

Of course, I should also like to see more British investment in Japan. This could be a major help to developing British exports to Japan. Here, one of the problems is that Japanese companies tend to be resistant to takeover bids. This is a psychological barrier which needs to be reduced if this aspect of the problem of co-operation is to be overcome. At the same time I hope that Japanese companies will do their best to import products from their partners rather than seek licences to produce their products in Japan. While production under licence may help the invisible balance, it can be positively damaging to employment. And, frankly, unemployment is the most important problem which my country faces today. It is a social and political problem which must be reduced as soon as possible. Japanese-British economic relations should and, indeed, must be developed in a way which will contribute to a significant reduction in our unemployment. If this cannot be done, then I fear that economic friction will increase and pressure for protectionism may become irresistible.

I do not want to end on a negative note because I firmly believe in the importance of developing Anglo-Japanese relations in a spirit of friendly dialogue. But, as Mrs. Thatcher herself said last year, it is facts and figures that ultimately count. So let us see more Japanese imports of manufactures from Britain, less concentrated and torrential exports, and many, many more cases of effective and productive industrial collaboration. ●