Do State and Politics Matter? The Case of Nissan’s Direct Investment in Great Britain and Its Implications for British Leyland

Tommaso Pardi

This essay looks at a quite neglected side of the history of foreign direct investment (FDI) and multinationals: the political and diplomatic negotiations that often surround FDI projects and their wider implications for both the investors and the indigenous companies that might be affected by the entrance of new competitors. From this perspective, the case study analyzed here is of great relevance: it is the first direct investment made by a Japanese carmaker in Europe, and it was negotiated from 1981 to 1984 between Nissan and the British government led by Margaret Thatcher, which was also at the time the owner of the “national champion” British Leyland (BL). Funding BL while attracting a new powerful competitor seemed at the time and still appears today as a very contradictory strategy. The essay will show, however, that this strategy was coherent with the shift in political support from the ailing national carmaker to its first-tier suppliers. It will also provide some new insights into the more general debate concerning the decline of BL and the role that the state and politics have played in that story.

Foreign direct investment (FDI) and strategies of internationalization by multinational companies are traditional subjects of research in business history.¹ But the political and diplomatic negotiations that very often

surround these investments and their wider implications for both the investors and the indigenous companies that might be affected by the direct entrance of new competitors have attracted less attention by the discipline.

The aim of this article is to explore this particular aspect of the business strategies of internationalization by looking at a very controversial direct investment. Lasting officially three years—between January 1981 and February 1984—the negotiation between the British government of Margaret Thatcher and the Japanese carmaker Nissan has attracted a great deal of attention, both at the national and the international level, and for different reasons.

This was indeed the first direct investment of a Japanese carmaker inside the European Economic Community (EEC), at a time when the European carmakers and their governments were freezing Japanese imports of cars and preventing direct Japanese investments from landing inside the ECC. Furthermore, the British government was also at the time the owner of British Leyland (BL), the last British carmaker, which was struggling to survive under the leadership of Sir Michael Edwards.

Why did the British government want to bring in and support Nissan at the very time it was pumping huge amounts of public money into BL? This question has been raised many times before, but we believe that it has not been yet been answered in a satisfactory manner.

Conventional wisdom tends to explain this contradictory strategy in two complementary ways. On the one hand, the doctrinal industrial policy explanation claims that the Thatcher government just wanted to replace inefficient (and unionized) British nationalized manufacturers with efficient (and union-free) foreign manufacturers in the name of free market and private enterprise ideology. On the other hand, the elite insularity explanation stresses the unusual gulf that lay between political elites and industrial interests in Britain in comparison with other European industrial countries, and how this gulf led to the pursuit of industrial policies that neglected those very interests.

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It is quite clear that both these explanations are plausible and provide a good understanding of the background that led to this particular industrial policy. Yet, they do not supply a definitive answer to the above question. Indeed, if the Thatcher government really wanted to get rid of BL and substitute for it more efficient Japanese carmakers, why did they not shut down the company back in 1981? At the time BL was far from viable, and this would have provided an even more favorable environment to welcome direct Japanese investment into the sector. Moreover, if the cost of shutting down BL were high, the costs of keeping it alive were higher, with no guarantee that they would eventually suffice to save the company. One British official noted before a meeting with Michael Edwardes:

Urgent: The briefing is bland in face of horrific figures of possible loss. Should not BL be acting now to pull back such a loss? Surely I should urge this? Please explain to me why I should not urge the sort of action that a private sector company would have had to take?

Secretary of State for Industry Keith Joseph was clearly among those who wanted to close down BL in 1980. His removal from the Department of Industry (DoI) in 1981 has been therefore interpreted by Stephen Wilks as a u-turn from doctrinal policy to a more practical approach to industrial policy. But if that was the case, why bring in Nissan? Wilks commented later on this by saying that the British government had put “a cat among the European pigeons” and that “here government policy has been important, provocative and perhaps successful.” Yet, if you are the owner of the weakest pigeon in the cage, and if the pigeon costs you several billion pounds in veterinary care because you want to keep it alive, would you put a cat in the cage?

The aim of this article is to provide, if not an alternative, at least a complementary and a more comprehensive, explanation for this contradiction. In order to do so, I will approach the question from a different angle: a socio-economic perspective.

According to the sociologist Neil Fligstein market architectures are social constructions shaped by the interest of the dominant actors in each market. A powerful corollary to this assumption is that industrial and

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commercial policies are always tailored to protect those interests. The question, therefore, is who are the dominant actors in the British auto sector during this period?

The article will show that the dominant actors were not BL or the American multinationals based in Britain, who were both very much hostile to the Nissan venture, but their first-tier suppliers, namely companies like Lucas, GKN, Smith Industries and Associated Engineering.\footnote{The work of Keith Cowling in the 1980s has already stressed the important role played by the internationalization strategies of the main British suppliers (Lucas, GKN, Associated Engineering) in the process of British de-industrialization: Keith Cowling, “The internationalization of production and de-industrialization,” in Technological Change, Industrial Restructuring, and Regional Development, ed. Ash Amin and John Goddard (London, 1986), 23-40. This hypothesis has recently been developed further by Dan Coffey and Carole Thornley in their Globalisation and Varieties of Capitalism: New Labour, Economic Policy and the Abject State (London, 2009). Yet the role of British suppliers in shaping the political agenda for both BL and the Nissan investment has so far been overlooked.} Attracting Nissan while still supporting BL was in fact what British suppliers wanted. Once this is understood, it becomes much easier to decode the rationale behind an otherwise contradictory industrial policy and to understand its wider implications for both BL and the Nissan investment.

The research presented in this essay relies on materials recently made available at different archival records, in particular the Department of Industry and Department of Trade and Industry (DTI, from 1983 onward) records relative to the Nissan negotiations, to the negotiations with Honda and its involvement with BL, and to BL itself and its international collaborations; and the Welsh Office records concerning the Nissan negotiations.

The article will be organized as follows: first, it will briefly summarize the implications of the Nissan investment in the more general context of the European struggle against Japanese imports, and why the decision of the British government to welcome the Nissan investment was both quite surprising and highly controversial. Second, it will explain the main reasons behind this decision, stressing the role played by the suppliers’ interests in shaping this particular political agenda. Third, it will look briefly at the setting and at the outcomes of the negotiation, both for the fate of BL and for the development of Nissan in Britain and Europe. The underlying question here will be: did state and politics matter, and if so, how did they matter?

**The European Fortress and the British Trojan Horse**

Let us first introduce the more general landscape that surrounded the start of the negotiations between the DoI and Nissan.
Before the first oil shock of 1973, Western carmakers were already facing a slowdown in the growth of their markets as a result of structural shifts in demand, from original equipment to replacement. After the sudden rise in oil prices, they found themselves struggling in rapidly shrinking markets. As a result, competition between carmakers and between automobile-producing countries intensified dramatically. Japanese carmakers in particular gained important market shares both in the United States and in Europe. This in turn led to political pressure to stop their exports. Between 1973 and 1981 Voluntary Restraint Agreements (VRA) froze Japanese market shares in all the main automobile markets: to less than 1 percent in Italy because of an earlier agreement, to 11 percent in Britain since 1975, to 3 percent in France since 1977, to around 20 percent in the United States since 1981, and to around 15 percent in Germany since 1981. Sweden, Spain, Portugal, and Belgium also obtained similar agreements in 1981. There was, however, a significant difference between the U.S. and the European configuration.

By the time the Big Three obtained the VRA, the Japanese market share had already climbed to over 20 percent. Since American carmakers did not export cars, this represented a terrible burden on an already negative balance of trade. Moreover Japanese sales in compact cars did not directly compete with the American production of “big cars” and light trucks. Therefore, the political pressure in the United States focused on forcing the Japanese to substitute their exports with direct production on American soil. Generally speaking, one can say that direct Japanese investment was welcome in the United States.

In Europe, the Japanese market share in the five main national European markets (accounting for more than half of the total and all belonging to automobile-producing countries) was less than 5 percent by the time it had been frozen by the various VRA, but it was over 20 percent in the remaining EEC and European Free Trade Association (EFTA) markets. Japanese sales there were in direct competition with the supply of all the generalist European carmakers, and were indeed based on price. As a result, Japanese sales were not only taking away market share but also destroying the margins of EU carmakers. Therefore, European political pressure was directed to stop imports, as in the United States, but also to prevent the Japanese from investing inside the European Economic

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9 Established in April 1981 the VRA fixed the quota for Japanese imports at 1.69 million cars.
11 “Mr Lutz (Chairman of Ford of Europe) made the point that the damage done to European car manufacturers by Japanese competition was far greater than the market penetration figures at first sight suggested. The real problem was that profit margins had been destroyed. Ford, he said, made most money in the markets where Japanese imports were most restricted.” Robin Mountfield, “Note on a meeting with Mr. Lutz of 1/12/1980,” 19 Dec. 1980, FV 22/124.
Community. Direct Japanese investment in the EEC would in fact aim at gaining extra market share, and not at substituting existing imports. This general EU agreement, which was also endorsed by the European Commission, resulted in 1981 in a first informal European quota, and, ten years later, in an official VRA that lasted until 1999. Against this background, Britain’s decision to negotiate with and support the establishment of Nissan in the early 1980s (and later of Honda and Toyota) was both surprising and very controversial—surprising, because, as we stressed earlier, Britain had a state-owned national champion (since 1975), certainly ill, but which still controlled 20 percent of the market and was very much in need of protection to restore its competitiveness; controversial, because, by letting the Japanese in, Britain was acting as a Trojan horse, helping the “enemy” to circumvent all the other national and European quotas.

The Rationale behind the Irrational: National Interest and British Suppliers

In analyzing the DoI archives, and in particular the internal correspondence of the Automobile Unit and their correspondence with the ministries, it is possible to identify at least two main reasons that combined to push the British government toward this decision.

BL weakness and the balance of trade
First, it is quite clear that among the European national champions, BL was by far the weakest. Despite the establishment in 1975 of the VRA with the Japanese, BL had been losing market share since 1973, from 38 percent in 1970, to 30 percent in 1975, to 18 percent in 1980; by that time it would have been long bankrupted without the financial support of the state. The reasons behind this decline are beyond the scope of this presentation: the blame has been placed alternatively on poor industrial relations (the “British disease”), poor management, and lack of coherent industrial policy and government support. What is clear is that by the early 1980s imports had taken up over 56 percent of the British market, a trend reinforced by the parallel imports of Ford and Vauxhall. The two American multinationals were in fact supplying a growing share of their

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13 Williams, Williams, and Haslam, The Breakdown of Austin Rover; Karel Williams, et al., Cars: Analysis, History, Cases; Wilks, Industrial Policy and the Motor Industry.
British sales from their German and Spanish factories.\textsuperscript{14} For the same reasons British exports of cars were plummeting, leading the trade balance of the sector to become negative by 1981.

The weakness of BL was at the forefront of the arguments developed by the DoI to justify British support for the Nissan investment in the name of national interest:

DGII (European Commission division) are likely to think us mad in supporting such a project at the same time as pumping money in to BL . . . . The point here is that we should make our decision on grounds of national interest and then cross our bridges. If Nissan are serious about assembling in Europe then if we sound too negative we could lose the project to others. Since our ability to keep out imports in this sector appears much less forceful than those of our partners it could pay us to pick up the project and gain domestically rather than suck in the output from another Member State.\textsuperscript{15}

Although this might appear as a rational approach to the problem represented by BL’s weakness, it is clear that the strong presence of multinational companies in Britain and the unresolved historical contradiction in British industrial policy between support for national or multinational companies both played an important role here.\textsuperscript{16} It is indeed very difficult to imagine any other major European government taking such a stance against its national champion under similar conditions. Yet, this ongoing contradiction was neither the only nor the main reason for following this political strategy.

\textit{The component industry in the driver’s seat}

The second reason, and possibly the most important one, is the influence exerted by the component industry on Whitehall.

Historically, like Japanese carmakers, British carmakers utilized a very high degree of outsourcing. But contrary to Japanese carmakers, they did not control their own suppliers; as a result the supplier companies had

\textsuperscript{14} This was the result fundamentally of three reasons: the high prices of British cars in comparison to continental Europe, the strong pound related to the discovery of the North Sea Oil, and the will of both the American multinationals to reduce their dependency on British factories: Steven Tolliday, “The decline of Ford in Britain: marketing and production in retreat, 1980-2003,” in Ford, 1903-2003: The European History, ed. Hubert Bonin, Yannick Lung, and Steven Tolliday (Paris, 2003), 94-99.

\textsuperscript{15} Robin Mountfield, “Commenting on Mr. Owen minute and possible reactions from EU commission and EU partners,” 26 July 1980, FV 22/133.

\textsuperscript{16} As it has been rightly put by Stephen Wilks, “One of the great vacuums within industrial policy is the reluctance to debate and to evaluate the implications of Britain as home and host for multinationals.” Wilks, Industrial Policy and the Motor Industry, 235.
grown large, autonomous, and powerful—a configuration indeed quite exceptional for automobile production worldwide.\(^\text{17}\)

According to the estimates of the Monopolies and Mergers Commission (MMC), the automobile supplier industry in 1981 was composed of around 300 first-tier suppliers and slightly more than 2,000 firms of smaller size.\(^\text{18}\) With a direct employment of 250,000–300,000 workers, and almost the same in terms of indirect employment, it was one of the largest employers in the country. Sales were estimated at 4.3 billion pounds, and more than half were made abroad; in comparison, BL sales in 1981 were of 2.9 billion pounds, but only 20 percent were made abroad. Even more important, all the main first-tier suppliers (Lucas, GKN, Associated Engineering) were still profitable by the beginning of the 1980s, a situation that contrasted starkly with the huge accumulated losses of BL. But why were British suppliers so profitable?

According to the Monopolies and Mergers Commission report on car parts for 1982, British suppliers controlled around 75 percent of the after-sale market for non-captive parts for British-made cars.\(^\text{19}\) This is by far the most profitable segment of the whole business: the sale of parts for the after-sale market represented in fact only 39.4 percent of the total sales of the British suppliers (on average between 1986 and 1990), but totalled 109.5 percent of their net profits. The same was true for carmakers: the sale of parts represented only 8 percent of their total sales, but still constituted 33.1 percent of their total net profits.\(^\text{20}\)

The problem for British suppliers was that they controlled only between 10 and 20 percent of the sale of car parts for imported cars.\(^\text{21}\) And as we have seen, the portion of imported cars in the British market had climbed from less than 10 percent in 1970 to well over 56 percent in 1980.

That is why the situation at the beginning of the 1980s was extremely delicate and complex. On the one hand, the fate of the British suppliers seemed indissolubly tied to the fate of BL, which concentrated 90 percent of its purchasing in Great-Britain, and whose after-sale market was the main source of profit for these suppliers. On the other hand, since the


\(^{18}\) Monopolies and Mergers Commission, Car parts: A report on the matter of existence or the possible existence of a complex monopoly situation in relation to the wholesale supply of motor car parts in the United Kingdom (London, 1982), 5.

\(^{19}\) Monopolies and Mergers Commission, Car parts (1982).


market share of BL was down from 40 percent in 1970 to less than 20 percent in 1980, it seemed clear that this configuration was no longer viable in the long term. In order to deal with this situation, the CILG (Component Industry Liaison Group) came up with a lobby strategy articulated on three main points:

1) to obtain from the conservative government an engagement in support of BL, but on the condition that the British carmaker would maintain its purchasing in Britain despite its collaboration with Honda, or with any other foreign carmaker;
2) to obtain from the government a new regulation policy on the after-sale market that would allow them the possibility of obtaining a larger share of the market for the imported cars;
3) to withdraw their opposition toward direct foreign investment from Japan in the sector, on the condition of imposing a very high level of local content (90 percent), or even, if possible, contractual clauses that would force the new entrants to buy only British parts.

The letter on “Possible Japanese investment in the auto industry” reproduced below, that had been sent on August 13, 1980, by John Nott, Secretary of State for Trade, to the Prime Minister and the Secretary of State for Industry shows that the objectives of the CILG were incorporated at the highest level in the political agenda of the Thatcher government:

I was extremely interested to see Keith Joseph’s minute to you about the approaches his Department had received from Japanese car manufactures who are considering establishing assembly operations in this country. Whilst recognising that this is a sensitive issue and that some account must be taken of the effects on BL of increased Japanese involvement in the United Kingdom industry, I hope that every encouragement can be given both to Nissan and Toyota to invest in this country. Such investment is likely to provide a welcome stimulus to component manufacture which despite its present difficulties is, in my view, likely to be far more important to our economy in long-term than the assembly of cars.

In my view we should negotiate from the outset an agreement with the Japanese that Government grants etc. could only be available on the basis that an agreed proportion of components were sourced from British industry.

We still have to deal with the problem to which the Price Commission drew attention in their report on car parts: Motor manufacturers impose conditions on their franchised dealers requiring the exclusive use of their own components for replacements, and now that the majority of cars are imported these conditions exclude our components industry from a growing part of the replacement market. After further study the Director General of Fair Trading has decided to refer this practice to the Monopolies and Mergers Commission for a short inquiry which, if
they reach an adverse conclusion on it, will give me the power to prohibit or regulate the practice.”

The economic importance of the component industry and its relative good health were not, however, the only reasons behind this unconditional support of the government for the strategy of the CILG. There are at least two other elements that played in its favor. The first reason is that first-tier suppliers such as Lucas, GKN, and Dunlop were already at the beginning of the 1980s multinational companies able to switch production and investment abroad. This provided them with a considerable lever on the government. The second can be deduced from the electoral geography of Great Britain: the West Midlands is one of the key swing regions in the balance between Tories and Labourites. Their economy depends on the auto suppliers, and their interests are represented in Parliament by the very influential cross-party Motor Industry Group. The same cannot be said for the city of Birmingham, politically tied to the interests of BL, and firmly controlled by the Labour Party.

Choosing Sides on Nissan

The letter of John Nott was followed in a few weeks by a first official meeting between the representatives of the DoI and Nissan. In the speaking notes for the meeting, the most significant passages already referred to the interests of suppliers:

Impact on component industry. High local content would be a big boost to the industry and might offset possible impact on BL, and would be essential to favourable HMG response. Judging by industry’s reaction to BL/Honda, local content would have to be 80%+ to satisfy component industry (virtually all components other than engine and gearbox). Could Nissan deliver this from year 1 or 2? . . . Speaking notes: . . . HMG’s substantial support to BL main evidence of Government’s determination to retain a viable motor manufacturing industry. As you will no doubt have learnt direct from Sir Barrie Heath (chairman of GKN), we do however have a much stronger components industry.

Furthermore, during this first meeting with Masatake Okuma (executive vice-president, Nissan), R. H. W. Bullock (deputy secretary of industry) clearly stated that “Nissan’s key task should be to seek actively the goodwill of the UK component industry. Its attitude was of the greatest importance. The UK Government would be seeking from the start a clear

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23 In 1981 Lucas, GKN, and Dunlop had, respectively, 42, 43, and 66 percent of their production abroad: Wilks, Industrial Policy and the Motor Industry, 260.

understanding about local content, and would wish to see targets for the future.”

It is worth noting that the targets considered—in the 1981 official announcement it was said that Nissan would be looking at 60 percent local content from the beginning of production in 1984 and 80 percent two years later—were 20 percent and 40 percent higher than what was required by EEC laws to recognize a product as European-made. But these high levels of local content would come at a price:

I wonder whether the brief should not pose the possible implications of Nissan’s arrival for BL rather more starkly. Is it not possible that Nissan will rapidly increase its throughput to 250,000 (fully utilising an assembly line on a two-shift basis) on the expectations that it will at least double its European volume as result of local assembly? And might not a second model follow, at similar volumes? Greater volumes would make it economic to increase content (pressings, transmissions, even engines?). It is conceivable that the employment consequences of this prospect turn out to be favourable, even if, as seems highly likely, volume of this kind undermine BL’s position.

In commenting on this scenario, Alan Whiting, one of the chief economists of the DoI (EcS1D) went even further:

I find myself in the confusing position of not disagreeing with the points you make but nevertheless feeling somewhat uneasy about the overall nuance of the draft: perhaps the whole is more than the sum of the parts. First . . . , it is far too easy temptation to assume that if the investment did not take place in the UK it would take place elsewhere in Europe with the UK thus not being saved any possible disadvantages . . . . the alternative is continued imports from Japan. Second . . . , the argument in our paper is that while NISSAN investment on the scale envisaged will only provide a killing blow to BL if BL was in any case doomed (although its death may well be hastened), it will certainly make life more difficult for BL; moreover, the increased competition will be more significant than is generally assumed. . . . What we do doubt, and what you may be questioning, is that increased competition from NISSAN on this scale will make unviable a BL which could be otherwise have been viable.

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Despite the uneasiness of Alan Whiting, and the explicit statement of N. C. Owen, the balance inside Whitehall was clearly in favor of a large-scale investment. The priority was therefore incontestably given to the interests of the British component industry and their demand for high local content, rather than to BL and its chances of recovery. The official announcement of the Nissan project made on January 29, 1981, by Norman Tebbit confirmed this clearly: it foresaw the establishment of a production facility that would produce by 1984 over 100,000 vehicles per year with 60 percent local content, and that would attain 200,000 vehicles per year by 1986 with 80 percent local content.

**Conclusion**

Even though the analysis of the long and complex negotiation between the DoI and Nissan is beyond the scope of this article, it will suffice here to say that after this promising start in 1981, the negotiation bumped into a long series of problems. The question of local content in particular remained prominent throughout the talks. It first led to a breakdown of the negotiations in 1982 and eventually forced Nissan to settle in 1984 for a very much scaled-down project, whose production would still be counted under the British quota for Japanese imports until the end of the 1980s. As a result, the establishment of Nissan in Britain, and in Europe, was substantially delayed. It would of course be reductive to impute to this single constraint the many difficulties that the Japanese carmaker would face later on in Europe; but it is a fact that Nissan accumulated over 2.6 billion Euros in losses during the 1990s before being absorbed in 1999 by Renault.29 This was also true for the two other Japanese carmakers—Honda and Toyota—that established subsidiaries in Britain: their losses between 1990 and 2005 were 1.16 billion Euros for Honda and around 500 million Euros for Toyota.30 They too had to accept the British formula for local content: 60 percent at the beginning of production, 80 percent eighteen months later. By contrast in North America the local content of the Japanese subsidiaries was only 55 percent by 1990 and around 70 percent by the middle of the 1990s, despite a much larger volume of production than in Europe.31

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29 This data is based on the accounts of Nissan Europe NV between 1990 and 2000.
30 For Honda the data is based on the accounts of Honda Motor Europe (North), (Limited) and (South) between 1992 and 2000. For Toyota the calculation is more difficult, because Toyota did not have integrated European accounts for its European operations before 2000. This number is therefore the result of the author’s calculation based on the accounts of the Toyota subsidiaries in Europe (production and distribution).
Concerning BL, and why there is no longer a British Leyland or Rover in Britain today is indeed a complex story that has yet to be told and analyzed in detail. Of course, the mixed results of the alliance with Honda in the 1980s, the general lack of political support from the Thatcher government, the subsequent sale to British Aerospace in 1988, and then to BMW in 1994 have certainly played a very important role in the progressive demise of BL. Yet, the fact that from the early 1980s the survival of this publically owned company was subordinated to the interests of its powerful suppliers appears retrospectively as an even more decisive factor in this story. The DoI archives reveal in particular an episode that is very instructive from this perspective.

At the end of 1982, Michael Edwardes announced to the government BL’s intention to shift 35 percent of its purchasing abroad by 1984—namely, to Spain, Japan, Taiwan, and Korea. This is stated in the first draft of the 1983 BL corporate plan. The plan had been established with the cooperation of Honda, which provided all the information concerning the suppliers abroad. The shift in purchasing was expected to produce an economy of 80 million pounds for 1984 alone. The savings would amount to several hundred million pounds by the end of the decade. This would allow BL to reduce its prices by 14 percent in 1985 and to become competitive again at home and abroad. Though the DoI did not contest the data provided by Edwardes, the government refused even to consider this possibility. Both ministries and senior civil servants stated clearly that the most important reason why BL had been funded in 1980 and in 1981 was its very high degree of British purchasing (close to 99 percent), and that the government’s financial support of the company would be kept only under this particular condition. In an urgent meeting organized by the DoI, Edwardes argued “that BL had two priorities here; first the viability of ARG [Austin Rover Group], and second the desirability of the sourcing from UK companies.”

The reaction from the government, which vetoed the whole project, showed clearly that the order of priorities was in fact reversed.

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32 Robin Mountfield to John Bowder, 10 Sept 1982, FV 22/95.
34 Ibid.