

JAPAN-UK RELATIONS AFTER BREXIT: LOOKING TOWARDS A CLOSER ECONOMIC PARTNERSHIP



EXECUTIVE SUMMARY

INTRODUCTION

The UK and Japan signed a free trade agreement in October 2020, marking the beginning of a new phase in a dynamic – if understated – economic partnership. The last five years have seen global upheaval, with a volatile geopolitical environment, challenges to the liberal trading system, and the COVID-19 pandemic. The UK's departure from the European Union on 31 December 2020, and a significant leadership transition in Japan in September 2020, have also been a source of disruption domestically.

Against this backdrop, this report explores the future of the economic partnership between Japan and the UK, looking at opportunities to grow bilateral trade within the framework of the new trade agreement and areas of collaboration to develop the global trade environment in ways that will benefit both economies. The report concludes with a set of recommendations for the UK and Japanese governments, as well as other stakeholders involved in international trade.

This report was researched and produced by Asia House. The views and recommendations within the report are a synthesis of the views of business leaders and trade policy experts in Europe and Asia, who took part in focus groups and individual interviews during February and March 2021.

CONTEXT

Economic and trade ties between Japan and the UK have grown significantly since the 1980s, with trade reaching £29 billion in 2018, underpinned by a strong but 'quiet' economic and political relationship and a shared commitment to a rules-based international trade system. The UK-Japan relationship faces three broad challenges: uncertainty over both countries' future strategy and strategic aims; the pursuit of growth as advanced economies; and an increasingly volatile geopolitical situation, marked by the rise of protectionism.

OPPORTUNITIES TO GROW THE ECONOMIC PARTNERSHIP

Building bilateral trade

The new free trade agreement (FTA) between the two countries – critical for continuity post-Brexit – has the potential to drive trade by more than £15 billion, with growth in areas such as digital trade and financial services. While the agreement provides an important framework for bilateral trade growth, more can be done to ensure that businesses utilise the agreement to its full potential. There are also areas where the agreement could be expanded.

We have identified two recommendations for improving UK-Japan bilateral trade:

1. Build out support for businesses to utilise the agreement

Additional government support – and an evolution from the historic UK and Japanese laissez-faire stances – will help ensure more effective utilisation of the FTA. Though the UK and Japan have historically maintained a 'quiet' relationship, the next phase of bilateral relations will require a more concerted effort, particularly in the case of SMEs.

2. Explore expanding the investment chapter

With the UK-Japan agreement expanded on the EU-Japan agreement in several areas, the investment chapter could have gone further. There is huge potential to boost investment between the two countries, given both have liberal investment policy environments; the need for economic recovery post-pandemic; and the changing geopolitical environment. Greater commitments and provisions on investment protections and dispute settlement would enable higher levels of investment. Additionally, while the digital policy provisions in the UK-Japan FTA are progressive, there is still more to be done to boost digital trade and position both countries as global leaders on digital policy.



DEVELOPING INTERNATIONAL OPPORTUNITIES

In the long term the scope for bilateral trade growth is limited in comparison to possibilities in higher growth markets for both economies. As two of the world's leading advocates for free trade, the UK and Japan can play major roles in the revival of a liberal, rules-based international environment, and drive discussions on key areas of trade policy reform at the global level. Both economies, alongside their many trading partners, stand to gain from this.

There are a number of actions that can be taken to encourage an open and free operating environment:

1. Redefining and re-establishing regional and global engagement strategies

Both countries must clearly redefine their global and regional economic strategies, particularly in the current volatile geopolitical environment. For example, stakeholders in Japan are still unclear what 'Global Britain' means for Asia, and how a more active UK should be engaged.

2. Cooperating to support and uphold a rules-based international liberal order

In the face of increasing protectionism, economic powers with a vested and heavy reliance on an open international system - like the UK and Japan - must continue to uphold and promote an open global environment. Both countries enjoy influential positions in international organisations, and these forums will be critical in developing the rules for trade.

3. Cementing both countries as leaders in digital trade policy

The UK-Japan trade agreement acknowledged the opportunities for growth in digital trade for both countries, and both have prioritised the digital economy and digitalisation as key policy areas. As leaders in technology innovation, the UK and Japan

should collaborate to develop the framework for global digital trade.

4. Cooperating on global infrastructure growth

Both countries are well plugged-in to policy banks active in the region, and have unique expertise in infrastructure financing and development. In addition to the opportunities for UK and Japanese businesses in infrastructure development in third countries, both Japan and the UK will benefit indirectly from the economic growth that better infrastructure brings in developing markets.

5. Collaborating on climate change and other global issues

The UK and Japan are well placed to be leaders in sustainable financing and the development of green finance hubs. Green finance activities in both countries have developed rapidly in the last ten years. As mature and well-established financial centres, both public and private finance institutions in both countries have a role to play in addressing climate change as a global challenge. Collaboration on issues such as the development of consistent regulatory reporting requirements, cooperation between green finance hubs, and cross-border initiatives, could support both countries as leaders in this space, as well as supporting climate risk mitigation globally.

Japan and the UK have maintained strong economic and political ties since 1980, with similarly advanced economies and similar roles to play in a liberal international order. At a time of changing geopolitics, the COVID-19 pandemic, the rise of regionalism, and changing domestic environments, both countries must look at ways to strengthen the economic partnership – both bilaterally, and by supporting an open and encouraging global environment.

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