

## **Response to House of Commons International Trade Committee Inquiry into UK Trade Negotiations**

### **Written Submission from Professor Hugo Dobson, PhD, FAcSS**

#### **Summary**

1. I am Professor of Japan's International Relations in the School of East Asian Studies at the University of Sheffield and Fellow of the Academy of Social Sciences. Based upon my research on Japanese politics and foreign policy, I was invited to make this written submission to the House of Commons International Trade Committee Inquiry into UK Trade Negotiations, specifically regarding a UK-Japan Free Trade Agreement (FTA), and do so in a personal capacity.
2. A UK-Japan FTA has the potential to benefit both countries as well as provide a stepping stone to the UK's membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that Japan has championed. However, time is running out to agree a genuinely ambitious and comprehensive FTA.
3. From the Japanese perspective, the conclusion of a deep and comprehensive UK-EU agreement by the end of the transition period is a greater priority than a UK-Japan FTA.
4. The ambition behind the EU-Japan Economic Partnership Agreement (EPA), which entered into effect in February 2019, could continue to provide the starting point for a future UK-Japan FTA. However, negotiations are likely to be prolonged and challenging. Thus, within the limited time available, a two-stage process beginning with a mini-trade deal might offer an alternative approach to an extension of the current transition period.

#### **Q1 What is the state of the UK-Japan trade relationship and what are the potential benefits of an FTA?**

5. The UK-Japan trade relationship is important, totalling just over £29 billion, but comparatively modest. The UK is Japan's 12th largest trade partner and Japan is the UK's 13th largest trade partner. Both countries' economies are focused on much larger trade partners such as the US, China and the EU.
6. Both countries also share a historically strong political relationship both bilaterally and in multilateral forums across a wide range of issue areas. They both advocate common values based on liberal democracy, free market capitalism, the rule of law and a commitment to a rules-based international order.
7. For the UK, the value of the relationship with Japan lies in inward investment and job creation. By September 2016 Japanese companies had invested more than £60 billion supporting 140,000 jobs and transforming some regions of the UK in the process.
8. For the Japanese, the value of the relationship with the UK is that it has provided a 'Gateway to Europe'. This was the basis upon which the Thatcher government proactively and successfully wooed Japanese investment in the 1980s and made

guarantees that a business-friendly environment would continue in the future. As a result, Brexit has engendered a strong sense of betrayal in Japan.

9. Japan is the third largest economy in the world and a large market for the UK. Thus, a bilateral FTA certainly provides several opportunities, as outlined in the UK government's strategic case of May 2020. However, in order to provide clarity, consistency and certainty, Japan is more interested in seeing the UK conclude a deep and comprehensive agreement with the EU. This should be the UK's top priority above attempting to conclude a UK-Japan FTA simultaneously and will help to repair reputational damage done to the bilateral relationship since the Brexit referendum.

## **Q2 What are the potential barriers to a UK-Japan FTA?**

10. Mutual goodwill, shared values and a high degree of alignment already exist on both sides suggesting that negotiations towards a UK-Japan FTA could proceed smoothly, at least in principle. In addition, both sides want to avoid a 'cliff-edge' at the end of the current transition period.
11. However, the limited time available, compounded by the Covid-19 pandemic, represent the biggest barriers to the conclusion of an ambitious and comprehensive UK-Japan FTA.
12. This is further complicated by Japan's dissatisfaction with certain elements of the EU-Japan EPA and its refusal to automatically roll the agreement over. It is naturally seeking to renegotiate several concessions made to the EU during seven years of negotiations.
13. Areas where the agreement could be improved from a Japanese perspective include the immediate, rather than phased, removal of automotive tariffs, the increased free flow of data, visa regulations and the resolution mechanisms in investment disputes.
14. The Japanese approach to trade negotiations represents another challenge. History suggests several tactics and styles will be adopted. These include *inter alia* consensus-building both at home and internationally among several stakeholders, the adoption of a long-term perspective and range of delaying tactics, and eventually responding only to external pressure or a crisis. This suggest that progress will be incremental and negotiations will take some time.
15. However, more proactive tactics and styles have become evident in recent negotiations, including shifting across different levels from the unilateral to bilateral and multilateral, as well as the Japanese side manufacturing external pressure or leveraging an international agreement or endorsement by which it then justifies its response at home.
16. The Japanese refusal to roll-over the EU-Japan EPA and citing parliamentary approval procedures that further limit the timeframe to a matter of weeks can be seen in the context of this recent development of a more proactive Japanese negotiating approach. In either case, the Japanese side is in a strong position and has the above tactics available to extract concessions from the UK.

17. Nevertheless, the fact remains that a comprehensive UK-EU agreement is the overriding priority for the Japanese government and businesses and should be concluded before a UK-Japan FTA.
18. Pragmatically, if the UK wishes to conclude a genuinely ambitious and comprehensive FTA with Japan then it should consider an extension to the current transition period. The impact of the current pandemic and the limited capacity of the UK to conduct several trade negotiations simultaneously further justify such an extension.
19. If this is politically impossible, then a two-stage approach could be adopted by which a limited mini-trade deal covering less contentious issues is agreed in the available timeframe, and more substantive and controversial issues are postponed.

**Q3 What is the significance of the CPTPP and how likely is it that the UK could accede to it?**

20. The CPTPP came into effect in 2018 and is significant for several reasons. The combined GDP of its members (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam) represents 13 per cent of global GDP currently making it the third largest trading bloc in the world after NAFTA and the EU. However, all three FTAs will be surpassed by the Chinese-led Regional Comprehensive Economic Partnership (RCEP) currently under negotiation.
21. The CPTPP is also significant in that it demonstrated Japan's willingness to lead and act independently of US in the aftermath of the Trump administration's departure in 2017 from its previous iteration as the Trans-Pacific Partnership (TPP). Japan also occupies a pivotal position within the CPTPP as the largest economy accounting for almost half of its total GDP.
22. In this light, Japan has been keen to expand the bloc, as seen in its sponsorship of Thailand and leaving the opportunity open for China and the US to join in the future.
23. Japan is similarly supportive of the UK joining the CPTPP. This would add a like-minded partner, repair some of the damage caused by Brexit, increase the relevance of the CPTPP, and ultimately represent a diplomatic success for Japan.

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