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**Why the EU-Japan trade deal matters for trade and so much more**

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On February 1st, the EU-Japan Economic Partnership Agreement (EPA) entered into force. Rightly described as a ‘mega-deal’, since it covers 27.8 percent of the world economy and more than a third of global world trade, the event still received relatively little attention. Yet the deal truly matters both economically and politically, especially at a time when most headlines are made by the fall-out of President’s Trump ‘America First’ policies and UK-EU wrangling over Brexit.

The economic significance of the EPA is self-evident. It substantially lowers barriers to trade between the largest (EU) and fourth largest (Japan) markets globally. Combined the markets involve 635 million people. The agreement eases access of European firms into a country that is still perceived by many as highly protective. In 2017, EU trade in goods posted a deficit of 8.4 €bn with exports to Japan worth 60.5 €bn and imports valued at 68.9 €bn. In particular, EU producers of agricultural products, pharmaceuticals and medical equipment stand to benefit. The EPA also makes it easier for European firms to bid on large-scale infrastructure projects in Japan.

Japanese automotive and high-tech industries are also expected to benefit. Possibly even more important, the EPA enshrines the interconnectedness between the Japanese and European economies. Japanese foreign direct investment into the EU was worth 205.7 €bn in 2016, while EU foreign direct investment into Japan totaled 82.8 €bn. With its ageing population, Japan’s economic strength increasingly relies on the efficiency and competitiveness of the network of Japanese companies operating globally. Japanese companies will welcome the fact that the deal facilitates investments and closely related trade in services, in which the EU traditionally already posts a large surplus.

The EPA also matters politically. It is no coincidence that alongside the EPA, EU and Japan have also agreed on a Strategic Partnership (SPA). Both agreements emphasize ‘common principles and values’, and indeed signal a continued commitment to liberal democracy, multilateralism and a rule-based economic order. The EPA recognizes the relevance of the WTO. It confirms the commitment of both parties to sustainable development, including the Paris agreement on climate change. On cyber issues, the EU and Japan persist in maintaining a free, open and accessible internet, based on a multi-stakeholder, rather than government controlled, governance model. Going against the grain, the EU and Japan have stuck to a discourse valuing multilateralism over bilateral deals, and internationalism over nationalism.

The agreements are also a powerful political signal that the EU and Japan are able to successfully conclude negotiations. Trade agreements tend to take a long time. Already in 2001, the EU and Japan agreed an Action Plan for Cooperation. The dialogue on the EPA started in 2011, and from 2013 negotiations were endorsed by all 28 EU member states. Ratification and implementation of the EPA, and main parts of the SPA, however, has been swift taking less than six months. This provides a sharp contrast with the difficulties the EU faced in ratifying its free trade agreement with Canada, and the failure, at least for now, of agreeing the Transatlantic Trade and Investment Partnership with the USA. It also provides a victory for a Japan still hurting from President’s Trump decision to walk away for the Trans-Pacific Partnership.

International cooperation has taken on greater strategic importance for the EU as well as Japan. In a recent study, Emil Kirchner and I surveyed developments in EU-Japan security relations between 1990 and 2017. We mapped perceptions and responses to threats across a broad range of security domains to assess the relevance of EU-Japan cooperation. Clearly, over time the EU and Japan have perceived high-level threats in more and more domains (see *Figure 1*), even when they don’t always agree on the source of the threat. For the EU, Russia, political instability in the Middle East and Jihadism are most commonly mentioned across security areas. North Korea and China are the main sources of insecurity for Japan. The EU and Japan have also increased their cooperation between 1990 and 2017, most notably in economic security, cyber security and civil protection. At the same time, the scope of cooperation lags behind in a number of areas, such as military and regional security and terrorism. Especially the SPA provides the EU and Japan with a platform to extend their security cooperation to address their global and regional challenges.

And Brexit?

As things currently stand, the UK will only participate in the EPA and SPA for 59 days. It is rather ironic that, on March 29, the UK will exclude itself from agreements that in many ways reflect the ambitions of key Brexiteers. After all, the agreements not only provide a free trade area ‘beyond Europe’, they also provide the EU with greater ‘global influence’. The EPA and SPA are not only closely aligned with the UK’s economic and political interests, British diplomats also played an important role in negotiating them.

Since the mid 1980s, the UK has become Japan’s ‘Gateway to Europe’. The UK was Japan’s second largest destination of foreign direct investment after the USA. There are more than 1,000 Japanese companies in the UK, about 1/6 of all Japanese companies in the EU. These companies employ approximately 140,000 UK workers. Japanese companies produce nearly half of all cars manufactured in the UK, most of which are sold on the continent. The UK has proven to be so attractive for Japanese companies because of easy access to financial services through the City of London, but also because the UK provided an appealing business environment from which to export into the rest of Europe.

Brexit is a serious headache for Japanese politicians and businesses, and they have sounded their growing alarm as the process unfolded. Japanese companies have now begun to ‘vote with their feet’; for example, Nissan cancelled planned investments into its UK production facilities, and Sony and Panasonic are moving their European headquarters to the Netherlands. It is telling that on his latest trip to Europe, Prime Minister Abe first visited the Netherlands before travelling on to see Prime Minister May in London.

After Brexit, the UK hopes to join the Comprehensive and Progressive Trans-Pacific Partnership, which would secure comparable access to the Japanese market. Regardless, the EPA should provide the UK with a strong framework to strike a trade deal with Japan. However, these deals may prove to be largely inconsequential; for Japan the real importance of the UK lies in its access to the EU market. Without free and open trade between the UK and the rest of the EU, Japanese companies will not be impressed by any UK-Japan trade deal.

*Figure 1* EU and Japan threat perception

Source: Kirchner and Dorussen (2018). Policy domains: regional security, military security, non-proliferation, terrorism, organized crime, climate security, energy security, human security, civil protection, economic security, migration

References:

Kirchner, Emil, and Han Dorussen, eds (2018). EU-Japan Security Cooperation. Trends and Prospects. Routledge: London and New York