

UK-JAPAN TRADE

CBI Submission to the Department for International Trade call for input on a prospective free trade agreement between the United Kingdom and Japan

November 2019

Covering every nation and region of the United Kingdom, the Confederation of British Industry (CBI) is the UK's leading business organisation. The CBI speaks on behalf of more than 190,000 businesses of all sizes and sectors, who together employ around one-third of the UK's private sector workers. Our mission is to help business create a more prosperous society.

The CBI has operated a representative office covering the Asia-Pacific for over a decade, and represents more than 500 members operating across the region. As the only internationally orientated business group representing British business in Japan, the CBI is well placed to comment on this issue and values the opportunity to contribute substantively to the debate on the nature of our future trading relationship with Japan.

Executive Summary:

- **The UK and Japan enjoy a special and highly functional economic relationship, which has significant scope to grow irrespective of the UK's position within the European Union.**
- **The UK economy boasts unrivalled complementarity with that of Japan and expertise in skills and technologies that Japan needs to acquire, such as dealing with the challenges of an ageing population and digitalising its service sector.**
- **The UK is emerging as one of Japan's best partners in software development and R&D in computing technologies.**
- **Japanese investment into the UK is concentrated in the North East of England. The UK should build on this success and encourage investment in other regions.**
- **As a G7 economy, the UK is strong and reliable across many asset classes and sectors. The UK Government should stress to Japan that Britain remains open to trade and investment and demonstrate this with actions.**
- **UK business strongly welcomed the EPA and would see any gap between the EPA and a new UK-Japan deal, either in substance or in timing of application, as a step backwards in the trade and investment relationship.**
- **The UK Government should therefore move quickly to negotiate a new agreement, bearing in mind the very short timescales determined by Brexit and the risks of any gaps in trade continuity.**

The UK Government should use a future UK-Japan trade deal to focus on the obstacles to business which remain despite the EPA.

The future deal should maintain the same access as the UK now enjoys under the EPA in critical areas like cumulation, and look to go further and faster in reducing tariff and non-tariff barriers.

It should address also market access barriers inhibiting the growth of UK service providers in Japan including obstacles to mobility and to the development of a more inclusive labour market.

- **British business is well positioned to assist Japanese firms as the Japanese Government begins to invest, and request more collaboration with foreign firms, in Third Markets.**

A future UK-Japan trade deal offers big opportunities for UK business.

Japan is a market of critical importance to the UK, with exports growing by around 8% annually in recent years.¹ Moreover, there is significant scope to continue growing the UK-Japan economic relationship. Japan is the world's third-largest economy and a major importer and exporter of goods. However, the UK is currently just Japan's twelfth largest trading partner, accounting for 2.1% of all Japanese trade.² While the majority of Japan's trade is conducted between itself and other countries within the Asia-Pacific, the UK could look to Germany as an indicator of the size and scope of a future economic relationship with Japan. As it stands, Germany does close to 1.5 times as much trade with Japan as the UK does.³ The UK economy boasts unrivalled complementarity with that of Japan and expertise in skills and technologies that Japan needs to acquire.

Areas of particular complementarity between the UK and Japan include research & development into robotics, software, programming and computing technologies, as well as the sharing of best practises in financial and wider professional services, and managing industry's transition towards low carbon.

When seeking an independent trade arrangement with Japan, the UK should push the capability of British business to solve Japan's deep and multifaceted issue with ageing. This could be achieved by stressing the breadth and depth of UK excellence, across a wide range of sectors, and how greater UK engagement from British firms in Japan's markets provides a comprehensive solution.

Japan has one of the fastest ageing societies in the world. It is estimated that by 2055, 40% of Japanese citizens will be over the age of 65.⁴ This will have major implications on the size of Japan's workforce, which will have dramatically reduced in number and become reliant on innovative solutions for tasks that in today's working environment are handled by human employees. With fewer people in the workplace, and a higher number of potentially vulnerable people requiring care, sectors such as healthcare - and old-age care in particular - will need to embrace robotics and AI to free up available labour resource. Japan's ageing population could therefore be a catalyst for new innovations in health and social care, with opportunities for co-operation with UK companies.

Japanese companies are highly sophisticated and efficient in their approach to the manufacturing process. However, sizeable amounts of customer facing service business and back-office functions continue to be processed via inefficient and highly labour-intensive means, where business is done either over fax or the phone, or where documents are physically delivered. Greater levels of digitalisation within Japanese business is therefore a necessity. UK professional services firms are already active in the market, and best placed to enable this transition.

UK companies within the professional services sector, and research & development institutions and organisations that are pioneering research into robotics, are finding significant opportunity in Japan, and are recognised as world leaders. Moreover, under the EU-Japan Economic Partnership Agreement (EPA), these companies are finding that improvements have been made to Japan's business environment, particularly in the pharmaceutical and medical devices markets.

The UK is also emerging as one of Japan's best partners in software development and R&D in computing technologies. Japan is one of the world's largest exporters of digital equipment and software, with computing components and advanced digitally-enhanced machinery representing close to 25% of all Japanese exports.⁵

¹ Office of National Statistics, *UK Balance of Payments – The Pink Book* (31 July 2018).

² OEC, *Japan*, "Destinations & Origins," accessible at: oec.com/en/profile/country/jpn/ (Accessed 04/11/2019).

³ Ibid.

⁴ The Department for International Trade, *Doing Business in Japan: Japan Trade and Export Guide*, 21 May 2015, accessible at: www.gov.uk/government/publications/exporting-to-japan/exporting-to-japan (Accessed 04/11/2019).

⁵ OEC, *Japan*.

While pursuing a new, independent trading relationship with Japan, the UK Government should reinforce the message that the UK remains open for business and industry remains ready and willing to collaborate and receive Japanese investment.

A new trade deal offers the chance to increase and diversify Japanese investment into the UK. Japan is the second largest individual country investor to the North East of England, after the United States of America. Nissan's £3.67 billion investment into Sunderland has resulted in the Japanese car marque becoming the North East of England's largest private employer. Going forward, the UK should make a greater effort to advertise other pockets of excellence across the regions to Japanese investors. One example would be Leeds in Yorkshire where small, specialist software firms have been identified as key collaborative partners for Japanese technology manufacturers.

The UK should use a future UK-Japan trade deal to focus on addressing market access barriers. As a minimum, the UK should maintain the same access as the UK now enjoys under the UK-Japan EPA in critical areas like cumulation, and look to go further where it can in tariff and non-tariff barriers and reduce barriers in the service sectors.

For both multinational companies with subsidiaries domiciled in Japan and foreign nationals seeking to work in the market, despite the introduction of the EPA, existing challenges prevent them from operating in the market to the same level as a local, Japanese competitor. The majority of these hinderances present themselves in the form of non-tariff market access barriers.

Accounting Standards. The UK Government should seek agreement from Japan that UK companies with subsidiaries domiciled in Japan will not have to continue to provide records in line with the Japanese Generally Accepted Accounting Standards (J-GAAP) as well as the International Financial Reporting Standards (IFRS). As of 2010, Japanese listed companies have been free to file accounts under IFRS guidelines only. However, foreign companies have for Japanese statutory purposes been made to continue reporting under J-GAAP guidelines for the benefit of Japan's Accounting Standards Board, while maintaining a dual set of detailed accounting records, in line with the country's wider transition to adopt IFRS. There is substantial difference between the two guidelines, which makes adhering to both inefficient and de facto discrimination against foreign companies. CBI members in Japan complain that these accounting differences result in undue management distraction, resource commitment and administrative burden.

Services. The UK Government should focus on addressing areas of Japanese law covering the legal profession where there are work experience barriers preventing Japanese subsidiaries of UK firms hiring foreign-qualified employees. British law firms operating in Japan struggle to hire UK-qualified lawyers to work in their Japanese practises because three years of work experience is currently required to obtain a visa. These requirements act as a barrier to UK firms, because UK firms active in Japan seek to differentiate themselves in the market by providing advice on matters relating to UK Common Law that are matters for international - and not Japanese - arbitration. As a result, UK law firms wish to hire UK-trained lawyers. The three-year work experience requirement makes Japan an unattractive placement for UK-based lawyers, however. It makes it difficult for UK law firms to send trainees to Japan to gain experience practising in the market and it bars UK-based firms from sending Associates there also. This means that a standard Japanese office of a UK-based law firm will be top heavy, with a disproportionate number of Partners compared to Paralegals, whose salaries are much higher, thereby increasing the cost base.

Mobility. The obstacles to mobility of people described above are a deterrent to a whole range of sectors. Greater freedom for temporary movement of goods as well as people is also important to the creative sector.

Standards. Across Agriculture, Cosmetics, wider Consumer Products, Financial Services, Food & Beverage, Healthcare, Retail, Transportation (predominantly railways), Telecommunications, and a range of other sectors, Japan maintains "Japan-only" standards. Despite the introduction of the EPA, which will harmonise standards across a wide range of areas, Japan insists that efforts to converge on internationally recognised standards will take place at a pace set by Tokyo. In many cases, Japanese standards are less rigorous than those adopted by analogous markets. When applying to obtain a license to bring goods such as electronic signalling equipment, pharmaceuticals, telecommunications components and food products to market, UK companies should be allowed to use data obtained from tests conducted

outside of Japan. In certain subsectors of the healthcare sector, UK pharmaceuticals companies face redundant testing requirements and still face problems getting medicines to market.

Competition Law. Japanese Competition Law / Subcontractor Law should also be harmonised with global practises. The wording of legislation remains vague, despite having been amended multiple times, and is often re-interpreted, seemingly at whim, by the regulator without clear legal basis or transparency and often in favour of Japanese companies.

Data. The free flow of data, without any potential requirements for data localisation or disclosure of source codes is essential. Government should consult closely with business, bearing in mind the slightly different approaches to data taken in EPA and CPTPP.

Intellectual Property and Trademarks. The adoption of the EPA extended copyright protection, but it is still too easy for Japanese companies to pirate UK designs in sectors like fashion or music, including via illegal websites and streaming. Existing Geographical Indicators, which protect intellectual property in the food industry, should be protected.

Rules of Origin. It is vital that any future UK-Japan trade deal protects cumulation with 3rd countries for sectors such as automotive.

Japan should view the UK as a key market and a unique partner including in third markets.

British business has a lot to offer Japan. UK companies have a wealth of experience that Japanese companies would like to acquire, not only in terms of conducting R&D and developing standards and best practice in the service sector, but also with regard to holding major international events and developing international brand identity.

British business and CBI members were at the fore as Japan hosted the 2019 Rugby World Cup and are equally deeply involved as Japan prepares to host the 2020 Olympics. Three out of the 'Big Four' professional services firms have global headquarters in London, and UK professional services firms have unrivalled experience in supporting major international events. Indeed, EY acted as the official accounts and auditors to the World Cup. Moreover, security, power generation, transport and the rugby balls themselves, were all sourced from British providers.

British business is also ready and able to support Japan as its firms start to take a larger geo-political role in support of the Japanese government. British firms have a long history of successful collaboration with trade partners operating in third markets. Following Japanese Prime Minister, Shinzo Abe's recent announcement that Japan will contribute \$20 billion in investment into the African continent, the UK should find itself in pole position to take on a similar role with Japanese partners. British business anticipates that niche opportunities (Insurance, standards, design, legal services) will present themselves for UK companies who are able to assist Japanese business by underwriting projects across Africa, as well as ensuring adequate legal frameworks are in place to reduce risk when foreign and Japanese companies cooperate.