

Budding Ties? The Impact of Brexit on Europe-Japan Relations

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The decision of the UK to leave the European Union (EU) following the Brexit referendum of June 2016 came as a big surprise for Japan. Faced with the prospect of losing access to the Single European Market and a weakened EU and UK, Japan has accelerated its engagement with Europe. Together with the election of Donald Trump in the U.S., the Brexit vote served as a catalyst for a more proactive Japanese involvement in international trade and foreign policy matters. As a result, the country was able to make substantial progress in negotiations with the EU on a series of agreements, and began a parallel set of discussions with the UK. If the high level of political will for closer ties between Japan and Europe remains constant in the next few years, these developments promise to have lasting economic and political consequences for the actors directly involved, the U.S., and the rest of the world.

This paper is divided into three parts. First, it looks at why Brexit is important for Japan, and briefly outlines its potential economic, political and defense impact. Second, the paper focuses on the specific forms of economic and political engagements between Japan and the EU – and, to a lesser extent, the UK – following the Brexit referendum. Finally, it concludes with some observations about the opportunities and limitations posed by Japan’s renewed interest in European affairs, and possible consequences for the U.S.

¹ The paper is based on research of publicly available documents and discussions with dozens of Japanese, European and U.S. diplomats, academics, business representatives and journalists carried out as part of the CFR Hitachi fellowship from May 2017-March 2018. The author would like to thank her interlocutors for their insightful conversations – and to the Council on Foreign Relations (CFR), Hitachi and the Japan Institute of International Affairs (JIJA) for their generous support. The views expressed in this piece are the author’s own, and do not necessarily reflect those of any organization she has ever been associated with.

I. Why Brexit matters for Japan

“Everybody was surprised by the results of the Brexit referendum, but the Japanese were absolutely shocked,” one senior diplomat in Tokyo told the author more than a year and a half after the 2016 Brexit referendum. The two recurring sets of questions in almost all the interviews carried out during the duration of this fellowship focused on Donald Trump on the one hand, and the probability of the UK reversing its decision on Brexit and stay in the EU, on the other. The latter question in particular is a sign of the difficulty on the Japanese side to understand and accept the UK decision.

The main reason Brexit is so important to Japan is because of the disproportionate importance of the UK in most aspects of Japan’s engagement with Europe, be it economic, political, or defense-oriented. Consequently, as detailed below, Brexit stands to affect all of these facets of Japanese cooperation with Europe – and have forced it to reconsider its approach towards both the EU and the UK.

I.1. Brexit’s impact on Japan

Japan considers the UK its “gateway to Europe,” particularly in **economic** matters. By concentrating its investments in the UK, Japan gained access to the European Single Market of more than 500million relatively rich consumers. Depending on the outcome of Brexit, Japan stands to lose some of that access for its companies currently located in the UK. Today more than 1,000 Japanese companies operate in the UK, hiring directly approximately 140,000 people, and indirectly creating at least 500,000 jobs. The UK is also the second destination for Japanese direct investments, after the U.S.

There are several reasons Japan has decided to concentrate its European investments in the UK. They include the business friendly environment, the use of the English language, historical and cultural ties, London’s cosmopolitan

lifestyle, but also - as the Japanese government was keen to stress in a 15-page letter the Japanese Ministry of Foreign Affairs (MOFA) released just three months after the referendum² – the fact that, since the 1980s, the British government has pro-actively courted Japanese investments. Consequently, there is an implicit understanding from the Japanese side that the UK government “owes” special attention to Japanese interests, and should keep those interests in mind when negotiating Brexit. The former UK Ambassador to Japan, David Warren, indicated that some of his Japanese counterparts share a sense of “betrayal,” and feel that the UK does not share the same understanding of the situation.³

In particular, Brexit is most likely to impact the following **specific economic sectors** of the Japanese business presence in Europe:

- *The automotive industry*, which currently functions based on the “just-in-time” operating system of frequent border-free crossings of auto parts and limited warehouse storage. Among the first to respond the UK government’s invitation to invest in the 1980s, three Japanese car manufacturers (Honda, Nissan and Toyota) now make almost half of the 1.67 million cars produced in the UK. The majority of those vehicles are then sent for export to the rest of the European market. For an industry based on a high volume/low profit business model, the main concerns are the reintroduction of border-controls as well as tariffs and non-tariffs barriers post-Brexit. Speaking before the Paris Chamber of Commerce on February 26, 2018, Yoichi Suzuki, Japan’s chief negotiator for the EU-Japan free trade agreement, said that standard divergence between the UK and EU would make it more difficult to export Japanese cars assembled in the UK.⁴ Britain’s biggest carmakers, including Jaguar Land Rover, warned UK Prime Minister Theresa May that the additional costs

² The Ministry of Foreign Affairs of Japan, “Japan’s Message to the United Kingdom and the European Union,” September 2016. <http://www.mofa.go.jp/files/000185466.pdf>

³ David Warren, “The Japanese Ambassador is right to sound the Brexit alarm,” Prospect, February 23, 2018. <https://www.prospectmagazine.co.uk/world/the-japanese-ambassador-is-right-to-sound-the-brexit-alarm>

⁴ Claire Guyot, “Brexit to decide future of Japanese car industry in the UK,” *Euractiv*, March 1, 2018. <https://www.euractiv.com/section/uk-europe/news/brexit-to-decide-future-of-japanese-car-industry-in-the-uk/>

incurred because of Brexit would hurt the profitability of the industry, saying that any regulatory divergence between the UK and the EU would be a “fallback to the Middle Ages.”⁵

The UK has tried its best to offer assurances to the Japanese car manufacturers – which at least for the moment seem very reluctant to move from the UK. The industry welcomed news of a mutually agreed 21-month transition period after March 2019 during which current rules will continue to apply. Consequently, Toyota recently announced its plans to keep its Burnaston factory near Derby as the sole European producer of its Auris hatchback, a decision which safeguards approximately 3,000 jobs. Since approximately 85% of Toyota’s British output is exported, the company’s regional president, Johan van Zyl, said “continued free and frictionless trade between the U.K. and Europe will be vital for future success.”⁶ Honda has similarly indicated that it remains committed to maintaining its only European factory in the UK, and is considering building larger warehouses there.⁷

- *The pharmaceutical industry* has been comparatively less vocal than the big Japanese car manufacturing companies, but no less worried about the potential negative consequences of Brexit. Its share of concerns relate to restrictive tariffs, delays at ports, divergent rules, the relocation of the European Medicines Agency (EMA) from London to Amsterdam, and whether there will be post-Brexit recognition of testing and regulatory alignment. Depending on the post-Brexit relationship between the UK and the EU, the industry could incur additional expenses tied to retesting medicines, transferring marketing authorizations,

⁵ Costas Pitas, “Jaguar Land Rover warns Brexit deterring supplies, EU workers,” *Reuters*, September 7, 2017. <https://www.reuters.com/article/us-jaguarlandrover-tech-europe/jaguar-land-rover-warns-brexit-deterring-suppliers-eu-workers-idUSKCN1B11WH>

⁶ Christopher Jasper and Suzi Ring, “Toyota to Keep Auris in U.K., Showing Post-Brexit Confidencen,” *Bloomberg*, February 28, 2018. https://www.bloomberg.com/news/articles/2018-02-28/toyota-to-keep-auris-in-u-k-in-show-of-post-brexit-confidence?cmpid=BBBXT030118_BIZ&utm_medium=email&utm_source=newsletter&utm_term=180301&utm_campaign=brexit

⁷ Andrew Merrell, “Honda remains committed to the UK – despite the Japanese PM warning,” *GloucesterLive*, February 14, 2018. <https://www.gloucestershirelive.co.uk/news/business/honda-remains-committed-uk--1211620>

changing manufacturing licenses, but also the departure of skilled workers, and a blow to the UK's reputation as an attractive place to carry out research. Other international pharmaceutical companies have been more vocal about their worries than their Japanese counterparts. GlaxoSmithKline Plc estimates that, in the next two-three years, it could incur costs as high as 70 million pounds (\$98 million) of Brexit-related costs.⁸ Similarly, Johnson & Johnson estimated that it could face as many as 50,000 additional tests in the amount of 1 million pounds if there will be no post-Brexit mutual recognition of testing between the EU and the UK.⁹ AstroZeneca and MerckGAA raised similar concerns.

- *The financial sector* where, given London's preeminent role as the financial capital of Europe, the City serves as the current European headquarter of all the major Japanese financial companies. For a considerable time after the Brexit referendum it was unclear whether the UK would be able to preserve the so-called "passporting rights" that allow it to provide financial services across the EU. Since it takes approximately eighteen months to obtain a license to operate in other European countries, the major Japanese financial institutions based in London followed the example set by their U.S. counterparts and announced their decision to preemptively relocate part of their staff to continental Europe. Mitsubishi Bank UFJ picked Amsterdam as its base for EU securities operations, while Nomura Holdings, Daiwa Securities and Sumitomo Matsui Financial Group said they would move to Frankfurt.

It was only in early 2018 that it became clear the UK would lose passporting rights. Prime Minister May acknowledged this fact in her

⁸ James Paton, "Glaxo sees up to \$100 million in initial costs from Brexit," *Bloomberg*, March 16, 2018. https://www.bloomberg.com/news/articles/2018-03-15/drugmaker-glaxo-sees-up-to-100-million-in-initial-brexit-costs?cmpid=BBBXT031618_BIZ&utm_medium=email&utm_source=newsletter&utm_term=180316&utm_campaign=brexit

⁹ James Paton, "50,000 new drug tests among Brexit worries for pharma companies," *Bloomberg*, December 4, 2018. <https://www.bloomberg.com/news/articles/2017-12-04/50-000-new-drug-tests-among-brexit-worries-for-pharma-companies>

Manor House speech¹⁰ on March 2, 2018, and the EU's published negotiations for the post-Brexit arrangement with the UK¹¹ indicate a similar understanding. The financial sector is one of crucial economic importance for the UK, and London would like the greatest possible access to the EU financial market post-Brexit. However, as the EU is keen to note, the UK red lines in the negotiations limit the two sides to a post-Brexit free trade agreement – a format that is not conducive to deep cooperation in the field. The EU proposed instead a system of “improved equivalence”¹² that will grant UK banks access to the single market as long as the EU considers British rules to be equivalent to the bloc's. Compared to the current situation, this would be an unstable arrangement given the fact that the EU can rescind it at short notice. While many Japanese banking representatives don't anticipate London to lose its important role as a financial global capital, they privately acknowledge that the relocation of the European Banking Agency (EBA) from London to Paris and potential regulatory divergence it would cause, as well as the potential negative economic impact of Brexit on the British economy could negatively affect their business in the future.

The economic sectors listed above are among the most likely to be impacted by Brexit, but all Japanese businesses operating in Europe share **general economic concerns** about the potential negative impact of Brexit on the British economy in particular. In its “2017 Survey on Business Conditions of Japanese-Affiliated Companies in Europe” of the Japan External Trade Organization (JETRO), Japanese companies across Europe listed “UK economic slowdown” as their top concern regarding Brexit.¹³ Japanese companies

¹⁰ UK Government, “PM speech on our future economic partnership with the European Union,” March 2, 2018. <https://www.gov.uk/government/speeches/pm-speech-on-our-future-economic-partnership-with-the-european-union>

¹¹ European Council, “European Council (Art. 50) Guidelines,” March 23, 2018. <http://www.consilium.europa.eu//media/33458/23-euco-art50-guidelines.pdf>

¹² Nikos Chrysoloras and Ian Wishart, “EU Digs in over bank's post-Brexit access, but divisions emerge,” *Bloomberg*, March 20, 2018. <https://www.bloomberg.com/news/articles/2018-03-20/eu-offers-u-k-improved-equivalence-for-financial-services>

¹³ JETRO, “2017 Survey on Business Conditions of Japanese-Affiliated Companies in Europe,” December 4, 2017. <https://www.jetro.go.jp/en/news/releases/2017/aa69fb794e4db59f.html>

operating in the UK are also worried about access to both skilled and unskilled workers, given the stated goal of the current UK government to limit migration. Consequently, Japanese companies continue to follow Brexit negotiations and the reaction of various industries and third parties like the U.S. very closely. Decisions such as that of Unilever – the UK’s third largest company to consolidate its HQ in the Netherlands and abandon the separate London HQ is just one recent example that has caused more unease among third parties about the outcome of Brexit.¹⁴ As *The Economist* noted, exports are a large source of growth for Japan, so the country “fears the world is losing its taste for trade.”¹⁵

While most Japanese companies have been reluctant to expand their presence in the UK, and have been cautious about waiting to relocate their business on continental Europe, some companies have made a conscious decision to stay, and some have even expanded their investments in the country. This is the case especially for companies operating in the field of technology, fintech, internet of things (IOT), and most companies which have an operating mode less dependent on cross border trade.¹⁶

Last but not least, while it is true that Tokyo generally sees Brexit as a phenomenon that will impact primarily its economic interests, they are also concerned about the **political and defense implications of Brexit**. The UK is one of the most important European partners for Japan, given the country’s global political clout, military importance, and international standing. There is currently very good cooperation between Japan and the UK in this field, as illustrated by the fact that the UK is one of the few countries with which Japan has 2+2 regular consultations. Japan’s first modern National Security Strategy

¹⁴ Thomas Buckley, “Unilever picks Netherlands over U.K. as base in blow to May,” *Bloomberg*, March 15, 2018. https://www.bloomberg.com/news/articles/2018-03-15/unilever-chooses-single-base-in-netherlands-in-blow-to-may?cmpid=BBBXT031518_BIZ&utm_medium=email&utm_source=newsletter&utm_term=180315&utm_campaign=brexit

¹⁵ *The Economist*, “Trade deals between the EU and Japan only get you so far,” October 5, 2017.

¹⁶ Duncan Bartlett, “Japan’s Business Leaders Vow to Stay in Britain Despite Brexit,” *JapanForward*, March 7, 2018. <http://japan-forward.com/japans-business-leaders-vow-to-stay-in-britain-despite-brexit/>

(NSS)¹⁷ speaks about the country's proactive contribution to peace, based on international cooperation. Consequently, Japan is worried that both the EU and the UK will become more inward-looking, and potentially consumed by the negative forces of populism. Given a wide variety of threats and concerns coming from North Korea and China, but also cybersecurity, space, disinformation campaigns, etc., Japan wants consolidate its cooperation with third countries that share its values, and commitment to rule of law and the liberal international order.¹⁸

By and large, Japan is not concerned that Brexit will have a negative impact on its cooperation with Europe when addressing the North Korean threat. China is a different matter. Japan is worried that the rise of China may not evolve in full respect of international law. The country's actions in the South and East China Seas have made Japan increasingly uneasy. Japan would therefore like Europe to take a more active stance on these issues, even if only in the form of (strong) public statements. The EU follows an approach of "principled neutrality" when it comes to territorial disputes in Asia, limiting its contribution to general calls for the respect of international law. However, the EU's mild statement in response to the 2016 International Court of Justice (ICJ) ruling on the South China Sea -- where China was able to make use of its political influence over certain EU member states to weaken the final statement¹⁹ -- raised alarm bells in Tokyo. Some circles in Japan view China's Belt and Road Initiative (BRI) as an attempt to enhance its economic and political influence over Europe and continue a strategy of dividing the EU. The expected negative economic consequences of Brexit on both the EU and the UK could make both actors more willing to accept Chinese investments despite the political ties they may come with.

¹⁷ MOFA, "National Security Strategy (NSS)," http://www.mofa.go.jp/fp/nsp/page1we_000081.html

¹⁸ See also Irina Angelescu, "The Economic and Political Impact of Brexit on Japan," Sasakawa USA Forum Issue No. 11, January 31, 2018. <https://spfusa.org/sasakawa-usa-forum/economic-political-impact-brexit-japan/>

¹⁹ Robin Emmott, "EU's statement on South China Sea reflects divisions," *Reuters*, July 15, 2016. <https://www.reuters.com/article/us-southchinasea-ruling-eu/eus-statement-on-south-china-sea-reflects-divisions-idUSKCN0ZV1TS>

1.2. Official Japanese reaction to the Brexit decision

The previous section listed some of reasons underpinning Japan's uncharacteristically strong reaction to Brexit. Even before the Brexit referendum the Japanese Prime Minister Shinzō Abe made clear his country's preference for the UK to remain in the EU. At a joint press conference with then-UK Prime Minister David Cameron in London one month before the Brexit referendum, Abe stated clearly:

“The question on Brexit, this is a matter to be decided by the British people. But I believe that, because of the close partnership with the UK, Japan's interests are also at stake. Japan very clearly would prefer Britain to remain within the EU. It is better for the world that Britain remain in a strong EU.” (my emphasis)²⁰

Immediately after the vote the Japanese diplomatic and business communities promptly came together to coordinate responses and a joint position. The international diplomatic community was very surprised when, a few months later, MOFA released the afore-mentioned 15-page letter to the UK and the EU, a “wishlist for Brexit” of sorts for the Japanese on the future relationship between the UK and the EU:

“The Government of Japan trusts that the UK and the EU [...] will maintain the current business environment or alleviate the impacts of any radical changes, so as to remain an attractive destination for doing business.” (my emphasis)

The Japanese position has remained consistent about its preferences for Brexit from the very beginning: no Brexit or the “softest” form of Brexit, with unhindered access to the European Single Market – preferably preceded by a very long transition period that would allow Japanese businesses to adapt to

²⁰ UK Government, “PM Statement at press conference with Japanese Prime Minister Abe,” May 5, 2016. <https://www.gov.uk/government/speeches/pm-statement-at-press-conference-with-japanese-prime-minister-abe-5-may-2016>

changes.²¹ Its 15-page letter sent an important message to the UK and the EU, and was followed up by less visible, but no less ambitious and vocal, frequent visits and consultations between Tokyo, London and Brussels – as well as occasional public statements from the Japanese Ambassador in the UK.²² The Japanese business association Keidanren in particular is in close contact with its businesses operating in Europe, listening to their concerns, and advocating for their interests during period trips to Brussels and London, where they meet with some of the highest level decision-makers. Indeed, the UK and the EU generally welcome these meetings as a reminder of the impact the outcome of their negotiations will have on third parties as well.

The Brexit decision has left the Japanese side dumbfounded and, almost a year since the negotiations officially started in June 2017, Tokyo is left wishing for more clarity about the post-Brexit relationship between the EU and the UK. The Japanese side is puzzled by the British government’s rhetoric about the global opportunities that will follow Brexit because they think opportunities for closer cooperation between the UK and other parts of the world have always been there. So, while there are some Japanese officials and business representatives²³ who think the UK has the potential to reinvent itself and make the best of Brexit, others privately say they find British position on “Global Britain” perhaps “a little patronizing—the more so because they question whether an independent UK will continue indefinitely to play a top-table role in the world.”²⁴ From this perspective, discussions in Tokyo mostly reflect the view of Donald Tusk, President of the European Council:

“because of Brexit [the EU and the UK] will be drifting apart. In fact, *this will be the first FTA in history that loosens economic ties, instead of strengthening them*. Our agreement will not make trade between the UK and the EU frictionless or smoother. It will make it more complicated

²¹ Keidanren, “Opinion on the second phase of Brexit negotiations,” March 16, 2018.

<http://www.keidanren.or.jp/en/policy/2018/019.html>

²² Costas Pitas, “Japan warns on Brexit: We cannot continue in UK without profit,” *Reuters*, February 8, 2018. <https://uk.reuters.com/article/us-britain-eu-japan/japan-warns-on-brexit-we-cannot-continue-in-uk-without-profit-idUKKBN1FS1MJ>

²³ *The Economist*, “Trade deals between the EU and Japan only get you so far,” October 5, 2017.

²⁴ Duncan Barlett, “Japan’s Business Leaders Vow to Stay in Britain Despite Brexit,” *Japan Forward*, March 7, 2018. <http://japan-forward.com/japans-business-leaders-vow-to-stay-in-britain-despite-brexit/>

and costly than today, for all of us. This is the essence of Brexit.”²⁵ (my emphasis).

II. *EU-Japan and UK-Japan Relations After the Brexit Referendum*

The Brexit referendum – together with the decision of U.S. President Donald Trump to pull the U.S. out of the Trans-Pacific Partnership (TPP)²⁶ – have made Japan more determined to strengthen its ties with like-minded allies across the world. Japan has pursued a dual-track approach with the EU that includes an intensification of negotiations on economic and political agreements that had been under discussion before 2016. In parallel, Japan has also begun a parallel set of discussions with the UK aimed at reaffirming the strong economic, political and military ties between the two partners. While Japan is not in any way in a “either [the EU]-or [the UK]” position, it believes that the best solution to promote its interests would be for the UK to reconsider its Brexit decision, thus amplifying the impact of the Japan-EU agreements under discussion.

II.1. *EU-Japan economic cooperation*

The first “bud to blossom” in the EU-Japan cooperation post-Brexit referendum was the EU-Japan Economic Partnership Agreement (EPA). Even if, as acknowledged by Norio Maruyama, spokesperson for the Japanese

²⁵ European Council, “Statement by President Donald Tusk on the draft guidelines on the framework for the future relationship with the UK,” March 7, 2018.

http://www.consilium.europa.eu/en/press/press-releases/2018/03/07/statement-by-president-donald-tusk-on-the-draft-guidelines-on-the-framework-for-the-future-relationship-with-the-uk/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Statement+by+President+Donald+Tusk+on+the+draft+guidelines+on+the+framework+for+the+future+relationship+with+the+UK

²⁶ Irina Angelescu, “Trump’s visit re-energized Japan,” *RealClearWorld*, November 20, 2017.

https://www.realclearworld.com/articles/2017/11/20/trumps_visit_re-energized_japan_112636.html

government, it was too early to “predict [...] the real effect of Brexit” on the EPA,²⁷ the EU and Japan demonstrated significant political will to reach an agreement. In repeated conversations during 2017 Japanese contacts stressed that the conclusion of the EPA – alongside that of TPP after the U.S. withdrawal (“TPP11”) – was one of the most important foreign policy priorities for Japan, enjoying support at the highest political levels. As a result, the two sides reached an agreement in principle in July 2017,²⁸ and finalized their negotiations in December 2017.²⁹

EU and Japan are important trade partners for each other, but this agreement promises to bring them even closer. For example, in 2016 Japan was the EU’s second largest trade partner in Asia, with 3.6% of trade – but still ranking far behind its most important Asian partner (and second overall, after the U.S.), China, with 14.9% (see table below). The EU is also the second destination worldwide for Japanese investments, after the U.S.

No.	Total EU trade with...	Million euros	Share (%)
1.	USA	613,975	17.8
2.	China	514,597	14.9
3.	Switzerland	263,855	7.6
4.	Russia	191,185	5.5
5.	Turkey	144,653	4.2
6.	Japan	124,636	3.6

Source: The European Commission.

²⁷ Jacky Scanlan-Dyas, “EU-Japan Economic Partnership Agreement,” Hogan Lovells Brexit blog, September 7, 2017. <http://www.hoganlovellsbrexit.com/blog/85/eu-japan-economic-partnership-agreement>

²⁸ Irina Angelescu, “EU-Japan Agreement: Good news on the long road to a deal,” European Council on Foreign Relations, July 14, 2017. http://www.ecfr.eu/article/commentary_eu_japan_agreement_good_news_on_the_long_road_to_a_deal_7214

²⁹ Irina Angelescu, “EU-Japan partnership agreements herald new era of close cooperation,” European Council on Foreign Relations, January 29, 2018. www.ecfr.eu/article/commentary_eu_japan_partnership_agreements_herald_new_era_of_closer_cooperation

Media reports have dubbed the EU-Japan EPA the “cars for cheese” deal because it significantly reduces or altogether eliminates approximately 98% of all tariffs between the two parties. According to EU estimates, European companies will save up to €1 billion in customs duties per year, and the value of EU goods and services could rise by up to €20 billion as a result of the EU-Japan EPA.³⁰ European partners are likely to benefit from increased exports of chemical products, automobiles, processed food, medical devices – as well as enhanced cooperation in telecommunications and financial services, the protection of IPRs, and the partial opening of public procurement in certain cities. From Japan’s perspective, some of the biggest benefits of the EU-Japan EPA include tariffs elimination for specific industrial goods (e.g. 10% on auto parts, 14% on electronic devices), movement of persons and other barriers, and transparency and improvement of the operation of regulations.³¹

European businesses welcome the opportunities the EPA brings to open the Japanese market – which has been “more closed” than other markets around the world because of the “particular characteristics of the Japanese economy and society, such as the local business culture, and consumers with strong domestic preferences” but in most part because of “the large number of regulatory and other ‘behind the border’ obstacles.”³² In their turn, Japanese companies also complain about nontariff barriers to the EU market, because of incomplete alignment of regulatory and legislative frameworks in individual EU member states. At the same time, Japanese officials privately acknowledge that the country – which produces the lowest percentage of agricultural goods among OECD countries – is prepared to open its market to European goods to address the problems of an ageing agricultural labor force as well.

The EU-Japan is by all intents and purposes a “mega trade agreement” that includes in its 21 chapters not only provisions related to lifting tariffs and non-tariff barriers to trade, but also measures to address environmental

³⁰ Kristina Binder, “EU-Japan free trade agreement within reach,” European Parliamentary Research Service (EPRS) Briefing, July 2017, p. 1.

³¹ Yumiko Nakanishi, “Economic Partnership Agreement between Japan and the European Union and Legal Issues: A Focus on Investment,” *Hitotsubashi Journal of Law and Politics*, vol. 44, 2016, p. 19.

³² Kristina Binder, “EU-Japan free trade agreement within reach,” European Parliamentary Research Service (EPRS) Briefing, July 2017, p. 4.

degradation, labor rights, intellectual property rights (IPRs), etc.³³ Consequently, Prime Minister Abe called the EPA a “model for the 21st century.”³⁴ European and Japanese officials both believe that the EPA is one the best options available to address some of the shortcomings of the current World Trade Organization (WTO) system and set standards for global trade in the modern era.

Last but not least, the agreement is important because it stressed the importance of common values, and a shared commitment to free trade, rule of law, and fundamental rights. Consequently, third parties have also praised the EPA its contribution to promoting democratic values globally. Writing in *The Japan Times* a month after the conclusion of the negotiations, former NATO Secretary General Anders Fogh Rasmussen stressed that:

Besides economic benefits [the EU-Japan EPA] sends a powerful sign that *U.S. retrenchment will not see the democratic world abandon our values. This trade agreement is about freedom, and we need Japan to help us defend it.* (author’s emphasis)³⁵

The agreement is the result of eighteen months of negotiations which started in 2013. The EU and Japan announced the start of the negotiations only a few months before the EU-South Korea free trade agreement (FTA) came into effect in July 2011. Given the similarity of the two East Asian economies, Japanese businesses were worried South Korea now had a comparative advantage because of the FTA, and pushed hard both for the start and the conclusion of the EPA negotiations. However, it took the Brexit vote and the U.S. decision to withdraw from TPP that the EPA to seal the two sides’ commitment to the deal. At the time of writing the text of the agreement is going through the so-called “legal scrubbing” and translation into the 22 official

³³ The full text of the agreement can be found on the European Commission website, at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

³⁴ Janosch Delcker, “With Trump looking on Abe calls EU-Japan trade deal ‘model for the 21st century’,” *Politico*, July 7, 2017. <https://www.politico.eu/article/with-trump-looking-on-abe-calls-eu-japan-trade-deal-model-for-21st-century/>

³⁵ Anders Fogh Rasmussen, “Japan-EU trade agreement is about freedom,” *The Japan Times*, January 17, 2018. <HTTPS://WWW.JAPANTIMES.CO.JP/OPINION/2018/01/17/COMMENTARY/JAPAN-COMMENTARY/JAPAN-EU-TRADE-AGREEMENT-FREEDOM/#.WMAEQAIWA70>

EU languages and Japanese. There is great political will on both sides to ratify the agreement in time for it to come into force in early 2019, just before Brexit. Ironically, at the time when negotiations were first announced in 2011, they were part of a global trend of mega-FTAs, but the EPA is one of the few to be finalized and which stands a very good chance of being adopted and implemented.

In addition to the ratification and adoption of the EPA, the EU and Japan are also negotiating an agreement on data protection, and on investment protection standards and dispute resolution.

II.2. EU-Japan political and security cooperation

In parallel to the EPA, the EU and Japan have also been negotiating a Strategic Partnership Agreement (SPA). Despite the fact that some policymakers describe it as the “big bang” of bilateral relations,³⁶ the document is more modest in purpose than its economic equivalent described in the previous section. The EU and Japan have been strategic partners since 2003, and are now looking at the SPA to upgrade their partnership. The goal is to move away from the current sectoral and segmented approach towards a comprehensive, binding framework. The negotiating sides reached an agreement in principle on the SPA in July 2017, and EU officials in Tokyo indicated they expect to finalize the deal in early 2018.

While, as *The Economist* put it, the document appears to contain “little to thrill the soul,”³⁷ its importance should not be understated. Quoting sources from the Japanese Ministry of Foreign Affairs (MOFA), Marie Söderberg noted that the document “represents something completely new for Japan, insofar as it has essentially had no such agreements with any other parties” other than the U.S.-Japan security treaty and a looser agreement on political cooperation with

³⁶ Axel Berkofsky, “The EU-Japan Strategic Partnership Agreement (SPA) – Responding to the Crisis of the Liberal World Order,” Bertelsmann Stiftung Asia Policy Brief, December 2017, p. 1.

³⁷ *The Economist*, “Trade deal between the EU and Japan only get you so far,” October 5, 2017.

Ethiopia in 1954.³⁸ The SPA will include political and regional dialogues, provisions related to the promotion of human rights and fundamental freedoms, as well as economic, scientific and cultural cooperation.³⁹ In its essence, “the SPA is meant to create synergies between the EU’s ‘comprehensive approach’ to regional and global security and Japan’s ‘human security’ concept in the Middle East and Asia.”⁴⁰

SPA negotiations have not been altogether free of controversy. In particular, the Japanese side has been wary of the introduction of the EU’s so-called “essential elements clause” that the EU typically includes in all agreements with third countries to promote respect for human rights.⁴¹ This provision makes Japan uncomfortable particularly because of the death penalty. At the same time, European diplomats privately acknowledge the EU is highly unlikely to activate the clause when it comes to its engagement with Japan.

Despite its commitment to a “proactive contribution to peace,” the Japanese side has been ambivalent about the potential of the relationship with the EU itself. It is too early to speculate whether the SPA will be able to address this position. As noted in a briefing paper of the European Parliamentary Research Service (EPRS), the EU-Japan annual summits have “no equal in the archipelago’s foreign policy, not even with its main ally, the USA,” but “the summits are short in duration and, when it is Japan’s turn to travel to Europe, they are planned as part of longer trips – reflecting the importance Tokyo attaches to bilateral relations with some EU Member States as well as to the EU itself.”⁴²

³⁸ Marie Söderberg, “Introduction: Where is the EU-Japan Relationship Heading?,” in *Japan Forum* vol. 24, no. 3, 2012, p. 259.

³⁹ Enrico D’Ambrogio, “Japan and prospects for closer EU ties,” European Parliamentary Research Service (EPRS), October 2017, p. 6.

⁴⁰ Axel Berkofsky, “The EU-Japan Strategic Partnership Agreement (SPA) – Responding to the Crisis of the Liberal World Order,” Bertelsmann Stiftung Asia Policy Brief, December 2017, p. 5.

⁴¹ Axel Berkofsky, “The EU-Japan Strategic Partnership Agreement (SPA) – Responding to the Crisis of the Liberal World Order,” Bertelsmann Stiftung Asia Policy Brief, December 2017, p. 4.

⁴² Enrico D’Ambrogio, “Japan and prospects for closer EU ties,” European Parliamentary Research Service (EPRS), October 2017, p. 2.

The appeal of the EU for the Japanese partly lies in the fact that, while part of “the West” and closely aligned with the U.S., it exercises power differently than its transatlantic partner. In the immediate aftermath of the Brexit referendum, the EU released a Global Strategy for Foreign and Security Policy,⁴³ the first document of its kind in more than a decade. As stressed by Nathalie Tocci, senior advisor to the EU High Representative for Foreign and Security Policy Federica Mogherini, shortly after the release of the EU Global Strategy, the document took a “‘whole of EU’ approach, looking also at trade, development, migration, energy, climate and much more” in addition to the security aspects of the strategy.⁴⁴ Andrew Moravcsik even went so far as to suggest that this specific approach to foreign policy makes the EU a superpower that can rival and even surpass the U.S. and China:

“By most objective measures, [the EU] either rivals or surpasses the United States and China in its ability to project a full spectrum of global military, economic, and soft power. Europe consistently deploys military troops within and beyond its immediate neighborhood. It manipulates economic power with a skill and success unmatched by any other country or region. And its ability to employ ‘soft power’ to persuade other countries to change their behavior is unique.”⁴⁵

Another element that may favor international cooperation between the two actors is the fact that they have humble ambitions with regards to defense. Neither of them has outsized expectations regarding their individual defense capabilities or bilateral cooperation in the short to medium term. While the EU it created a permanent structured cooperation (PESCO) for defense matters last year - in part as a response to Brexit - it is cognizant that progress will be slow. Indeed, an “EU army” is nowhere in sight - nor is there consensus among EU

⁴³ The European External Action Service, “Shared Vision, Common Action: A stronger Europe. A Global Strategy for the European Union’s Foreign and Security Policy,” June 2016.

http://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf

⁴⁴ “Interview with Nathalie Tocci on the Global Strategy for the European Union’s Foreign and Security Policy,” *The International Spectator* vol. 51, no. 3, 2016, p. 2.

<http://www.iai.it/sites/default/files/tocci.pdf>

⁴⁵ Andrew Moravcsik, “Europe is still a superpower,” *Foreign Policy*, April 13, 2017.

<http://foreignpolicy.com/2017/04/13/europe-is-still-a-superpower/>

member states that there should ever be one. In this sense, NATO Secretary General Jens Stoltenberg correctly pointed out that “the reality is the European Union cannot protect Europe by itself” and the U.S. is still key for defending the continent.⁴⁶

In its turn, given the dependence of Japan on the U.S., Tokyo does not want to antagonize Washington. In addition to the weak competencies the EU has in defense matters, Japan also prefers NATO or individual EU member states (primarily the UK and France) because of the U.S. membership or strong military cooperation as well. In this sense, it is telling that Tokyo is framing its overtones to defense cooperation with Europe in terms of helping the United States. This view was most recently expressed by Foreign Minister Taro Kono at the Munich Security Conference. Incidentally, this was the first time a Japanese Foreign Minister attended this flagship conference on transatlantic security in four years, and his panel was titled “The Liberal international order under threat”:

“the United States will continue to play a large role in maintenance and development of the international order based on the rule of law, [and] it is important for the international community overall to *help the United States through burden sharing and cooperation*, and that *from this perspective cooperation between Japan and Europe is extremely important.*” (my emphasis)⁴⁷

II.3. UK-Japan bilateral cooperation after Brexit

Japanese public and private expressions of concern regarding Brexit sent a strong message to the UK that they needed to address this matter.

⁴⁶ Jim Garamone, “Stoltenberg discusses NATO transatlantic link at Munich security conference,” Department of Defense (DoD) News, February 21, 2018. <https://www.defense.gov/News/Article/Article/1446630/stoltenberg-discusses-nato-transatlantic-link-at-munich-conference/>

⁴⁷ MOFA, “Extraordinary press conference by Foreign Minister Taro Kono,” Munich, Germany, February 17, 2018. http://www.mofa.go.jp/press/kaiken/kaiken4e_000476.html

Consequently, the government of Theresa May tried to reassure the Japanese side through various diplomatic channels and forms of engagement, including several visits to Tokyo from high level Cabinet officials,⁴⁸ and of the Prime Minister⁴⁹ herself in 2017. The key message of these engagements has been that the UK understands Japan's concerns about Brexit, but that the process presents both actors with the opportunity to strengthen their ties. As noted earlier in this paper, the Japanese side does not fully share this understanding. Despite this fact, it has remained committed to preserving strong ties with perhaps its most important European partner.

When it comes to economic engagement, collaboration between the two sides in the aftermath of Brexit is limited by the fact that the UK cannot legally negotiate separate FTAs until it is no longer an EU member state.⁵⁰ Consequently, during Prime Minister May's visit to Tokyo last year, the UK and Japan signed a Joint Declaration on Prosperity Cooperation⁵¹ that stipulates the creation of a new framework of cooperation on economic matters. This framework includes enhanced ministerial engagement, the creation of a trade and investment working group to enhance future trade and investment relations and improve market access, as well as a series of dialogues on a wide range of issues including industrial policy, science and technology, nuclear matters, climate change, health, and even culture. The two parties hope that this framework of engagement will help accelerate the FTA negotiations after the UK's departure from the EU.

It is important to stress here the role of the multilateral FTAs Japan has negotiated – the EU-Japan EPA and the TPP – for the UK's post-Brexit future. With regards to the first, the UK has been a strong supporter in its current status as EU member state. During her visit to Tokyo last year, Prime Minister

⁴⁸ Irina Angelescu, "Mr. Johnson goes to Tokyo," *EUObserver*, July 31, 2017. <https://euobserver.com/opinion/138647>

⁴⁹ Irina Angelescu, "UK-Japan: Prime Minister May tries to allay Brexit fears with state visit," *The Diplomat*, September 6, 2017. <https://thediplomat.com/2017/09/uk-japan-prime-minister-may-tries-to-allay-brexit-fears-with-state-visit/>

⁵⁰ As per EU rules, only the European Commission can negotiate free trade agreements with third parties, upon receiving a mandate for negotiation from all EU member states.

⁵¹ UK Government, "Japan-UK Joint Declaration on Prosperity Cooperation," August 31, 2017. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/641154/Japan-UK_Joint_Declaration_on_Prosperty_Cooperation.pdf

May conveyed the message that it would like to apply the provisions of the EU-Japan EPA post-Brexit, until the two sides can negotiate a separate bilateral FTA. It is unclear at this point to what extent the EPA will benefit the bilateral UK-Japan economic relations after Brexit since, for example, the UK has a serviced-based economy, a chapter that is not as developed in the EU-Japan EPA, particularly not with regards to financial services. With regards to the second mega-FTA Japan negotiated, the UK has indicated its interest in joining TPP as an alternative to negotiating separate FTAs with all its parties, Japan included. These proposals suggest that the UK is becoming increasingly aware of the daunting task of (re)negotiating close to forty separate FTAs and as many as 1,139 bilateral and multilateral agreements that is now a party to thanks to its EU membership. As noted by EU experts Guillaume Van der Loo and Steven Blockmans:

“Contrary to what key Brexiteers have claimed, it will be virtually impossible for the UK to swiftly negotiate and conclude new bilateral agreements with the third parties with which it was previously bound through the EU’s international agreements. This is not just a question of the number of trade negotiators that the UK can muster. Third states may simply not wish to enter into trade talks with the UK before knowing whether and under what conditions goods leaving the UK will be able to enter the Single Market.”⁵²

The Japanese reaction to the UK proposals has been cautious. It is only in recent months that Japanese officials have come to embrace the idea of provisionally applying the EU-Japan EPA in its relations with the UK after Brexit. With regards to TPP membership of the UK, Kazuyoshi Umemoto, who led the negotiations to revive TPP11, said that “it’s too early to talk about it in a definitive way.”⁵³

⁵² Guillaume Van der Loo and Steven Blockmans, “The Impact of Brexit on the EU’s international agreements,” The CSS Blog Network, August 10, 2016. <https://isnblog.ethz.ch/international-relations/the-impact-of-brexit-on-the-eus-international-agreements>

⁵³ Robin Harding, “Japan’s TPP negotiator welcomes UK membership of trading bloc,” *Financial Times*, February 20, 2018.

While the UK's room of maneuver on economic matters is limited somewhat by its current EU membership, it has more freedom to engage Japan on political and defense matters. In this sense, the two sides signed a Joint Declaration on Security Cooperation⁵⁴ in August 2017, a rich document that includes references to closer cooperation on various issues. They include joint training and military exercises, information exchanges, commitment to a free and open Indo-Pacific, cooperation in support of the non-proliferation agreement, space policy, cybersecurity cooperation in light of the 2019 World Rugby Cup and 2020 Tokyo Olympics, both hosted by Japan, and capability building of developing countries. The Japanese side welcomes additional political and defense cooperation with its European partner, but Japanese contacts privately express concern that Brexit will negatively impact the UK's financial means to achieve its ambitious defense cooperation goals.

III. Challenges and opportunities for future cooperation

Could the relationship between the EU and Japan, which scholars characterized in the past as “lukewarm,” of “mutual neglect,”⁵⁵ or downright “insignificant”⁵⁶ – and one that the European Commission itself has described as “disappointing” in the past -- qualitatively improve as a result of Brexit? A combination of international and “domestic” factors in both actors seems to suggest that would be the case. With regards to the first, the current U.S. administration's ambivalence towards the liberal international order it helped create after World War II,⁵⁷ as well as the rise of China, continue to lead to

⁵⁴ UK Government, “Japan-UK Joint Declaration on Security Cooperation,” August 31, 2017. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/641155/Japan-UK_Joint_Declaration_on_Security_Cooperation.pdf

⁵⁵ Marie Söderberg, “Introduction: Where is the EU-Japan Relationship Heading?,” in *Japan Forum* vol. 24, no. 3, 2012, p. 250.

⁵⁶ Yuichi Hosoya, “The Evolution of EU-Japan Relationship: Towards a ‘Normative Partnership’?,” in *Japan Forum* vol. 24, no. 3, 2012, p. 319.

⁵⁷ Richard Haas, “America and the Great Abidcation,” *The Atlantic*, December 28, 2017. <https://www.theatlantic.com/international/archive/2017/12/america-abidcation-trump-foreign-policy/549296/>

much unease. With regards to the latter, Brexit has provided the impetus for both the EU and the UK to engage in a series of “domestic” reforms and proactive engagement with third parties – Japan included – to prove they can make the best of what at least the EU thinks is a regrettable decision.

Brexit has forced the Japanese diplomatic and business communities out of their comfort zone. The way the UK side has handled the negotiations has stressed an important cultural difference between the Japan and the UK when it comes to risk-management. The notoriously risk-averse Japan has felt uncomfortable and frustrated at times with how the UK side has handled its repeated requests to provide more transparency and certainty in Brexit negotiations. As a result of how these negotiations have unfolded – together with the Japan-EU EPA negotiations – have made some Japanese think of the EU as a more stable partner in the current context. They see the EU-Japan EPA in particular a concrete trust-building exercise during which the Japanese side gained much respect for the very seasoned and skilled EU negotiators.

While Japan is unlikely to alter its commitment towards closer relations with the UK, Brexit also provides it with a historic opportunity to engage the EU in a novel way, without the UK serving as an informal intermediary. The first challenge to closer EU-Japan relations is the fact that their cooperation is limited by competencies. It would be fair to describe both actors as “economic giants and military dwarfs” and, for reasons related to competencies and traditions, it is fair to expect the economic field to be the most prolific for cooperation. The fact that the EU-Japan EPA is based on fundamental principles provides an added-value by comparison to the type of engagement Europe has with China, for example. At the same time, however, it should be noted that previous bilateral EU-Japan forms of cooperation (1991 Hague Declaration, 2001 Action Plan) were similarly drafted in the name of cooperation based on similar values, such as democracy, rule of law and the defense of human rights, but proved to be limited in actual implementation.⁵⁸

⁵⁸ Axel Berkofsky, “EU-Japan Relations from 2001 to Today: Achievements, Failures and Prospects,” in *Japan Forum* vol. 24, no. 3, 2012, pp. 266-288-.

It is clear that the relationship between the EU and Japan will grow in the shadow of their larger partner and ally, the U.S. Talks about the triangular relationship between the U.S.-Japan-Europe date back to the end of the Cold War, but the Europe-Japan link has always been the weakest one.⁵⁹ In this sense, the U.S. welcomes additional cooperation of some of its closest allies, provided it doesn't undermine overall U.S. strategic interests. In particular, joint training and cooperation to address newer threats like cybersecurity or disinformation could prove to be mutually beneficial. The U.S. should also welcome in principle the closer economic ties between the EU and Japan as a means to promote free trade worldwide. While too early to specifically assess, the EU-Japan data protection agreement and certain provisions in the EU-Japan EPA such as Geographic Indicators (GIs) for agricultural products could negatively affect U.S. interests. With regards to the latter, for example, the U.S. has long opposed such regulations, arguing that they prevent U.S. food and drink makers selling their own products into third markets.

To conclude, while the current situation presents favorable conditions for closer EU-Japan cooperation, the two sides have to be careful not to put too much on the plate from the very beginning. A more modest agenda of cooperation – especially in political and defense matters – will help build the trust and understanding necessary for more substantive engagement in the future. The key to success is perseverance and patience because, as former EU chief negotiator of the SPA said, “ambitions like the ones [the EU and Japan] are pursuing with the [EPA and the SPA] cannot be fulfilled in a day.”⁶⁰ Or, as Axel Berkofsky put it more bluntly, “the longer the list becomes, the less the EU and Japan arguably present themselves as credible foreign and security policy partners.”⁶¹

⁵⁹ Marie Söderberg, “Introduction: Where is the EU-Japan Relationship Heading?,” in *Japan Forum* vol. 24, no. 3, 2012, p. 251.

⁶⁰ Gerhard Sabathil, “Making the Strategic Partnership between Japan and Europe Work,” in *Asia-Pacific Review* vol. 22, no. 2, 2015, p. 80.

⁶¹ Axel Berkofsky, “EU-Japan Relations from 2001 to Today: Achievements, Failures and Prospects,” in *Japan Forum* vol. 24, no. 3, 2012, p. 277.