CHAPTER 10

Towards a New World Trade Order? The EU, Brexit and North-East Asia

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INTRODUCTION

Among the many arguments advanced by those in the UK who advocated it leaving the European Union (EU), one of the most passionate was that doing so would allow the country to negotiate its own trade deals with other countries around the world, rather than being subject to priorities set by the European Commission. This was stated clearly by then Prime Minister Theresa May in her Lancaster House speech of January 2017, in which she set out her vision of the future relationship between the UK and EU. In it, she claimed that ‘Many in Britain have always felt that the UK’s place in the European Union came at the expense of our global ties, and of a bolder embrace of free trade with the wider world.’\(^1\)

The conviction of the UK as a great global trading nation is widely held. It often goes hand in hand with a frequently expressed notion that EU bureaucracy and the differing objectives of some other member states

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have somehow hampered Britain’s trading ambitions. Leave the EU, and
the ambition could be fulfilled. As the then International Trade Secre-
tary, Liam Fox, said shortly after the result of the 2016 referendum: ‘I
believe the UK is in a prime position to become a world leader in free
trade because of the brave and historic decision of the British people to
leave the European Union.’ As Dr Fox admitted, however, only 11%
of British firms export, and the value of British exports when measured
as a percentage of Gross Domestic Product (GDP) is considerably less
than that of other EU member states. But it is a powerful narrative, and a
major reason why the withdrawal agreement Mrs May negotiated with the
EU provoked so much opposition from her own party’s parliamentarians,
who saw the proposal for continuing, even if temporary, membership of
a Customs Union with the EU as falling some way short of the complete
break they hoped for.

It is a narrative in which North-East Asia, or more specifically China,
has also featured. The British Government’s statements and policy
papers on post-Brexit relationships and priorities compared the growth
of exports to China favourably with those to the EU. China was the
only country mentioned by name in a 2017 Government paper on
future trading relationships, and on her visit to Beijing in February
2018, Theresa May pitched for a bilateral trade agreement post-Brexit.
Whether these ambitions are ephemeral rather than substantive remains
to be seen. As Tim Summers has shown in Chapter 5, the idea of China
as an economic opportunity for the UK has diminished noticeably since
Theresa May was replaced by Boris Johnson as prime minister in 2019,
with security and other concerns becoming more prominent. In April
2020, at the height of the Covid-19 pandemic, British Foreign Secretary
Dominic Raab was widely reported as saying: ‘We can’t have business as
usual [with China] after this crisis,’ a view that was reinforced after China
announced plans to impose a national security law on Hong Kong the
following month.

The UK’s Trade with North-East Asia
At the time of the Brexit referendum in 2016, the only country in North-
East Asia with which the EU had a free trade agreement (FTA) was the
Republic of Korea (RoK, Korea). A comprehensive agreement between
the two, including many ground-breaking features in the coverage of
non-tariff barriers (NTBs), entered into force in 2011. Then in December
2017 the EU concluded a similarly comprehensive agreement with Japan. And on 30 December 2020, after thirty-four rounds of negotiations lasting seven years, the EU and China reached agreement on a bilateral investment treaty. In October 2015, the European Commission also announced that it would explore launching negotiations on an investment agreement with Taiwan, although progress to date has been minimal.6

While this undermines the narrative that the EU is protectionist, of greater consequence is that as a minimum, the UK will have to negotiate or renegotiate new bilateral agreements with Korea, China and Japan if its businesses are not to be placed at a disadvantage in trading with these countries from 2021, once EU policies and regulations cease to apply in the UK. The UK’s apparent determination to pursue new bilateral agreements is not happening in isolation, however, but against the background of much bigger and more significant changes in the global trading environment, primarily arising from a major shift in US policies under the Trump administration. One of President Trump’s first acts on taking office was to withdraw the USA from the Trans-Pacific Partnership (TPP) trade agreement, a signature policy of the previous Obama administration. No negotiations with the EU over an ambitious Transatlantic Trade and Investment Partnership (TTIP) agreement, another Obama administration project, have been held since 2016 and the EU has now concluded that the negotiating directives for this are ‘obsolete and no longer relevant.’7

The Trump administration had also engaged in an increasingly bitter trade dispute with China that saw each side impose tariffs and retaliatory tariffs on imports from the other, a dispute that had consequences for many other countries and that also fuelled global business uncertainty. On the other hand, in direct contrast to President Obama’s warning in 2016 that in the event of a vote for Brexit, the UK would be at the back of the queue in negotiating any replacement trade agreement with the USA, President Trump had said: ‘we stand ready to complete an exceptional new trade agreement with the UK that will bring tremendous benefits to both of our countries,’ and by May 2020 preliminary discussions had already taken place. He also signed a partial ‘early harvest’ bilateral trade agreement with Japan.8 While Trump’s preference for bilateral agreements over multilateral ones, therefore, seemed clear, it was radically different from the policies of previous US administrations, so it is not possible to say at present whether his preference will be maintained by his successor.
Other than in negotiations over a future bilateral agreement, the UK has no influence over the conduct of US trade policy or, now that it has left, that of the EU. For countries in North-East Asia, US trade policy is of far greater significance than post-Brexit trade with the UK. China is by any measure the UK’s largest trade partner in the region, accounting for 7.8% of the UK’s total global trade and 5.65% of its exports. But to put this in broader perspective, China’s share of British exports is smaller than that of Ireland, the UK’s neighbour but a country with a population less than one-half per cent that of China. And from China’s perspective, the UK accounts for just 1.75% of its total trade, or 2.29% of its exports, compared with the USA which accounts for 13.74% of its trade and takes almost 20% of its exports. A new bilateral trade agreement with the UK is therefore not an obvious priority for China, nor does the UK have any obvious leverage in trying to negotiate one.

From 2000 to 2018, the UK’s two-way trade with China grew almost fivefold. Export growth was even more spectacular. This growth explains the positive noises about bilateral trade and investment opportunities made by British ministers in the aftermath of the referendum that Tim Summers mentions in Chapter 5. But the experience was simply in line with that of other countries’ trade with China. Prior to 2010, not only were exports to China from Germany, France and Italy, the other three EU members of the G7, also growing, they were growing faster than those of the UK. (Since 2010, the growth rate of British exports to China has overtaken that of Italy’s but remains behind those of France and Germany.) But for the UK, the growth of exports to China has been a bright spot compared to its trade with other countries in North-East Asia. Since the turn of the millennium, this has grown more slowly than has the UK’s trade with the rest of the EU.

Table 10.1 shows that, in contrast to the fivefold growth in trade with

|                | 2000  | 2010  | 2018   |
|----------------|-------|-------|--------|
| China          | 15,091| 61,234| 88,105 |
| Japan          | 21,130| 18,787| 20,726 |
| Korea          | 7,568 | 6,908 | 13,112 |
| Taiwan         | 6,447 | 6,215 | 6,718  |
| Rest of EU     | 339,458| 496,490| 582,025|

*Source* IMF, Direction of Trade Statistics
China, total trade growth with Korea over the same 18-year period was at a more modest compound annual rate of 3.1%, only a little more than the annual rate of growth of 3.04% in trade with the rest of the EU over the same period. Long-term trade with Taiwan was stagnant, being just 4% higher in dollar terms in 2018 than in 2000, while with Japan the UK did less trade in 2018 than at the start of the millennium. In part, this was due to a marked decline in trade with all three in the aftermath of the global financial crisis and the ensuing great recession of 2007–2009. But only in the case of Korea has trade since surpassed the levels of 2000. Somewhat inconveniently for the anti-EU narrative in the UK, the bulk of the growth in British exports to Korea also followed the signing of the EU’s free trade agreement (FTA) with Korea, which came into effect in 2011.10

Nonetheless, the UK’s overall trade with North-East Asia is far from negligible, and against a background of wider economic uncertainty, a carefully planned approach to future trading relations could still enable the UK to influence multilateral trading agreements more broadly, as well as deliver significant benefits to the British economy. But this will require not only a strategic vision but, just as importantly, an understanding both of contemporary global trading and manufacturing patterns and of the relative importance of trade and foreign investment to the British economy. Yet much of the political narrative and rhetoric surrounding both Brexit and the future of the UK’s relations with the EU has focused on trade, often at the expense of investment.

In considering the potential influence the UK might have in any future trading arrangements with North-East Asia, a good starting point is the reaction of the countries in the region to the result of the Brexit referendum. For China, Japan and Korea, the proportions of their total exports to the EU going to the UK are almost identical, at between 16.2 and 16.7%. (For Taiwan, the proportion is less—13.8%.) But only in Korea, which in recent years has pursued a vigorous trade-oriented diplomacy, were fears about the impact of Brexit on trade uppermost in the reactions of policymakers. Within a matter of days of the referendum outcome in 2016, the Korean Government, fearing an adverse impact on trade, was considering a $17bn economic stimulus package in response.11 By contrast, the Chinese Government, which had made clear its preference for the UK to remain in the EU, was worried less about trade and more about both a loss of influence within the EU if the UK left, and an increase in American influence upon it, to China’s disadvantage (this
was before the election of Donald Trump as American president). In Taiwan, senior members of the government were privately optimistic that, as the UK had already signed a series of bilateral agreements in recent years covering a broad range of issues from double taxation through air services to working holidaymakers, outside the EU it might prove even more amenable to further expanding bilateral links.

The most measured and detailed official response came from the Japanese Government. As David Warren explains in Chapter 6, just over two months after the referendum, Prime Minister Shinzo Abe handed Theresa May a 15-page letter setting out Japan’s concerns in detail. These focussed not on trade, as Brexit advocates might have assumed, but on the potential impact of Brexit on the Japanese companies which had invested in the UK to take advantage of its membership of the Single Market, some of them, as Abe tartly pointed out, having been invited by the government to do so.

The Overlooked Importance of Foreign Investment

Privately, many Japanese officials felt that the very nature of the letter, not to mention the detailed concerns expressed therein, was almost unprecedented in diplomatic terms. But what was surely more surprising was that the Japanese prime minister felt compelled to state such home truths in the first place. For, despite the emphasis placed on Britain’s free trade ambitions both during and since the referendum campaign, this is something of a chimera. Overseas investment, whether inward or outward, has long been proportionately more important to the UK than to any comparable economy. Prior to the Second World War, the primary interest of British businesses overseas was less in exporting goods and more in investing, in utilities especially, notably railways, but also in natural resources such as agriculture in Australia and Argentina or rubber plantations in Malaya.

The remittances from these investments were returned to the UK and the export of goods from the country—of railway locomotives, for example—was frequently to supply these investments. But the reverse was also true, as the years before the First World War saw significant foreign investment in the British economy. American companies carried out investment in emerging industries such as motor manufacturing (Ford) and electrical equipment (GEC, Westinghouse). This even
extended to London’s public transport, most of which was run by an American-controlled company until 1933.

By 1947, most of the country’s pre-war overseas capital assets had been liquidated through a combination of nationalisation in the countries concerned, the expiry of concessions, or their exchange or forced sale as part of wider deals to settle post-war debts. (By one estimate, the total stock of British investment in China in 1949 was some £300 million and the importance of protecting this was a major reason why the British Government moved so quickly to recognise the new People’s Republic of China in 1950, although the move was to no avail.)15 Bereft of hitherto near-captive markets, henceforward exporters would have to work much harder to win orders.

Over the next forty years, the importance of Foreign Direct Investment (FDI) into the British economy would remain broadly in line with other comparable economies, but this was to change dramatically after the European Single Market came into being in 1993. In 1995, FDI in the UK was equivalent to 16.1% of GDP, not so different from the then EU overall figure of 13.2%. By 2014, it was equivalent to 58.3% of GDP against an EU average of 43.6% and a world average of 31.8%. Even this figure probably understates its full impact on the economy. An independent report on the likely impact of Brexit on FDI calculated that foreign-owned companies account for approximately 30% of UK gross value added, fully half of all UK manufacturing investment and one-third of employment in UK manufacturing.16 The bulk of this—nearly 60%—came from other EU countries, but according to the UK’s Office for National Statistics, 5.6% came from Japan, a much larger share than from any other North-East Asian economy.

While relatively small in proportion to the total, the investment from Japan has been of disproportionate importance for the British economy. Not only was the bulk of it put into manufacturing—most notably the UK’s hitherto ailing motor industry—but as Abe explained in his letter to Mrs May, the UK was chosen as it was seen by the companies concerned as a ‘gateway to Europe’ and they established value chains across Europe as part of their investment decision.17

**Supply Chains and Free Trade Agreements**

Given the rise over the last two decades of such value or supply chains for business generally, and manufacturing especially, not just within the European Single Market but globally, it is surprising that their importance appears to be so little understood by politicians and policymakers. It is a
major explanation for the apparent stagnation of bilateral trade between the UK (and the EU generally) and Japan and Taiwan since 2000, and it has important implications for future trade agreements if these are to achieve their purported objectives.

As one relatively small but nonetheless illuminating example of the way modern supply chains work, China is now the third-largest supplier of fish to the UK market by value, after Iceland and the Faroe Islands. The bulk of this is cod, which is not caught in the Pacific or Chinese waters but in the North Atlantic. The cod is either caught by or sold to Russian factory ships, which take it to Qingdao in China. Once there, it is processed in Korean-owned factories before being shipped back to the UK to be sold.\(^\text{18}\) What happens on a relatively small scale with frozen fish takes place on a far larger scale in the automotive, ICT and other industries.

Apart from a few niche companies, the British motor industry is now completely foreign owned. In 2016, Japanese plants accounted for 48% of UK output in the sector, 80% of which is exported.\(^\text{19}\) The biggest selling brand of cars in the UK for most of the past 40 years, however, has been Ford which no longer makes cars in the country. But it did make engines and transmissions in the UK until autumn 2020, which were shipped to plants elsewhere in Europe for installation in vehicles, many of which were then exported back to the UK.

China is now the world’s second-largest exporter of ICT and ICT-related products, after the USA. But between 40% and 80% of the computer hardware made in China is produced in Taiwanese-owned factories and Taiwanese-owned firms and subsidiaries are responsible for up to 20% of China’s exports to the EU. While the UK may import no more today from Taiwan than it did in 2000, just as its imports from China have soared, so too have Taiwanese exports to China, which is now Taiwan’s largest market. Taiwan is also the second-largest source of FDI for China.\(^\text{20}\)

Both the exports and investment are heavily concentrated in the ICT sector, which accounts for over 40% of all Taiwan’s exports and more than 60% of those to China. The bulk of this is in components, or intermediate goods, such as memory chips or semiconductors, rather than fully finished products. Trade in intermediate goods generally is important for Taiwan, comprising 64% of its total trade with North America and 73% of that with the rest of Asia.\(^\text{21}\) While this is much higher than for comparable
countries, intermediate goods form an important and growing proportion of overall world trade. For Japan, Korea and the UK, they comprise between 19% and 23% of total exports and imports. As Robyn Klingler-Vidra and Yu Ching Kuo have shown in Chapter 8, this becomes especially relevant in considering the US-China trade dispute, in which Taiwanese firms have become unwittingly embroiled in view of their importance as suppliers of critical components to end-users in both countries. Notwithstanding the rise of companies such as Huawei, China’s primary role in much of the ICT trade is as the final assembly point of intermediate goods from Taiwan, Japan, Korea, South-East Asia and elsewhere, including the USA. The proportion of value added in China is usually small, by one estimate in the case of mobile phones, barely 3.5% of the final selling price. In the words of the WTO: ‘The statistical bias created by attributing the full commercial value to the last country of origin can pervert the political debate on the origin of the imbalances and lead to misguided, and hence counter-productive, decisions.’

As multilateral trade agreements increasingly give way to bilateral or regional agreements, so too the significance of value chains, ‘just in time delivery’ and trade in intermediate goods is becoming more apparent. The growth of bilateral agreements, especially, is giving rise to the ‘noodle bowl’ effect in which different agreements have different rules of origin applied to limit or prevent third-country producers from taking advantage of them. The degree of local content permitted, and consequent tariff levels applied, varies not only from agreement to agreement but also from product to product. The growing complexity of such agreements in turn creates hurdles for businesses in terms of the procedures necessary to demonstrate compliance with the rules of origin, which can make the agreements self-defeating to all but the politicians advocating them. As one example, the Economic Cooperation Framework Agreement (ECFA) between Taiwan and China came into effect in January 2010, yet by 2014 one study found that the utilisation rate among Taiwanese exporters of the preferential tariffs available to them was only 52%. (This was an average, which masked sectoral differences, and admittedly the utilisation rate was increasing.) A similar analysis of the Switzerland-China FTA four years after that entered into force found a utilisation rate of just 44% on Swiss exports to China.
The ‘continuity free trade agreement’ that the UK signed with South Korea in August 2019 also demonstrates well some of the challenges. Under this, the existing provisions of Korea’s FTA with the EU were ‘cut and pasted’ into a separate bilateral agreement with the UK to take effect after Brexit. From a UK perspective, the deal was something of a relief. It was the first full deal signed with any of its top 15 trading partners to cover post-Brexit trading arrangements. Even then, it was only reached three months after the originally planned ‘Brexit day’ of 31 March. Furthermore, it provides only short-term reassurance as it will need to be renegotiated within two years.25

This renegotiation will have to cover the future treatment of UK goods with significant European components and vice versa. To give just one example, for a car to be eligible to be imported into Korea under the current EU-Korea FTA, non-EU parts or materials should account for no more than 45% of the ex-works price.26 For two years from August 2019, British-made cars will be able to be imported into Korea as if they were made in the EU. Thereafter, the UK will have to negotiate a new, long-term agreement with Seoul if British-made cars are to continue to benefit from the current provisions. But based on current trade patterns, the UK motor industry will continue to rely on significant quantities of components from the EU after Brexit, and any future agreement will also have to agree on how these should be treated. The reverse will also apply. Had Ford not closed its Bridgend plant, and wished to export European made cars to Korea, for example, it would either have had to persuade the Commission to negotiate with Korea to amend the current FTA to take account of the value of the engines made in the UK, or source engines from within the EU.

This does not negate potential wider benefits of bilateral FTAs, but it does highlight some of the limitations that surround them, and suggests that for post-Brexit Britain they are likely to be an inferior substitute for multilateral, or at least regional, agreements, given the nature of so much UK trade, as shown by the examples already cited. In the negotiations that led to the EU-Korea FTA of 2011, Korea was very much the junior partner and its negotiating leverage reflected this. But in bilateral negotiations with the UK, Korea is much more evenly matched in economic weight. It also has the advantage of having a highly experienced cadre of trade negotiators, in contrast to the UK for whom such negotiations have been handled until now by the European Commission.
The EU deal also reflects Korea’s determined pursuit of trade diplomacy. In addition to this agreement, in recent years it has signed agreements with both the USA and China, as well as opening discussions with Japan and China on a tri-partite agreement. Japan, by contrast, has been more hesitant in pursuing bilateral trade deals. This reticence perhaps reflects, in part, a preference it shares with the EU, Taiwan and others for multilateral agreements, along with strong opposition from domestic vested interests, the agriculture lobby especially, to the anticipated demands of other parties.

But the very success of its investments in the UK economy means that of the North-East Asian countries, Japan stands to lose the most from Brexit. Spurred perhaps by this, together with the withdrawal of the USA from the TPP, and after some prevarication on both sides since the idea was first proposed formally in 2013, Japan and the EU moved quickly to conclude their own FTA, or Economic Partnership Agreement (EPA), in December 2017. It entered into force in February 2019.\textsuperscript{27} Given the international trade environment at the time, the significance of this should not be under-estimated. One commentator described it as ‘one of the few trade deals of geopolitical importance,’ and Japan as ‘the only global actor’ capable of helping the EU advance its agenda of open trade, the rule of law and social and environmental standards. But the agreement was of considerable strategic benefit to Japan too: ‘The EU may have lost a member but has found its first strategic partner in Japan to bolster its role in the Pacific century.’\textsuperscript{28}

If Korea was content to a ‘cut and paste’ agreement with the UK, albeit on a short-term basis, Japan showed no reticence in demonstrating its relative bargaining muscle. Following the signing of the EPA with the EU, the British Government hastened to seek a similar rollover agreement with Japan to that with Korea. On the face of it, this should have been attractive to Japan: by one estimate, the impact of Brexit would reduce the estimated economic gains for Japan of the EPA by 14%.\textsuperscript{29} But British ministers appear to have repeatedly misunderstood Japan’s concerns, focusing on the importance of securing a ‘cut and paste’ FTA. In contrast, Japan placed a greater emphasis on protecting its investments in the UK and their supply chains after Brexit. As David Warren has shown in his chapter, they had no excuse for doing so, as the Japanese Government had been consistent in its concern about the impact of a Leave vote on Japanese investment in the UK. The concerns were again made clear by Abe when Mrs May visited Tokyo in 2017, when he said: ‘I have asked
Prime Minister May for her continued consideration in ensuring transparency and predictability so as to minimise [Brexit’s] impact on business activities, including Japanese companies… I hope that transparency and predictability will be ensured. That would be very important.”

Almost twelve months later, a representative of the Japan Business Council in Europe openly expressed frustration that officials in the UK’s Department for International Trade remained both ignorant of the importance of supply chains for Japanese businesses in the UK, and convinced that the concerns of the Council’s members over future trading arrangements with the EU could be dealt with through a UK-Japan bilateral free trade agreement. Japan did eventually agree to enter discussions about a bilateral FTA, however, and an agreement was signed in October 2020. While this was politically important for the British Government, in demonstrating its ability to negotiate such agreements, in practice it is little more than a ‘cut and paste’ from the Japan—EU agreement and the economic impact is likely to be small.

**Towards a New Multilateral Free Trade Agreement**

Notwithstanding the firm approach Japan initially took towards bilateral trade negotiations with the UK, again as David Warren has explained, Shinzo Abe was probably the most vocal foreign supporter of the withdrawal agreement that Mrs May agreed with the EU but failed to get through her own parliament, recognising better than many British politicians the importance of stability and certainty for business confidence. And Abe’s broader response to Brexit demonstrated leadership on a scale unusual if not unprecedented for Japan since 1945. The catalyst for his new approach was concern about the policies of US President Donald Trump and China’s Xi Jinping more than Brexit. Still, it offers nonetheless an intriguing way forward for the UK and the EU too, if his wider ambitions ever come to fruition.

As Prime Minister Abe implied in his September 2016 letter to Mrs May, at the heart of Japanese concerns about Brexit was a feeling that much of Japan’s investment in the UK had been not simply a business decision but a response to a British Government invitation. Moreover, by risking the success of this investment, the British Government had broken its side of an agreement.

At least one Japanese author has suggested that the likely consequence would be that Abe would seek to tie Japan ever more closely to the USA,
at the expense of its relationship with the UK and EU. This may have been his original intention. But barely four months after the September 2016 G20 meeting in Hangzhou at which Abe handed his letter to Mrs May, the TPP trade agreement faced collapse after the USA withdrew.

Although Japan had initially appeared no more than lukewarm about the TPP proposal, Prime Minister Abe grasped the initiative. He successfully resurrected the agreement, re-branding it as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), in effect a TPP minus both the USA and the provisions that would have been of most benefit to American companies. It entered into force in December 2018. His motivation for doing so has been ascribed to various factors, including the likely impact on his domestic economic policies. Initially, it may have been an attempt to try to persuade President Trump to reconsider his decision to withdraw the USA, and he received tacit support and encouragement from former senior American officials in pursuing this approach. Subsequently, it may have been motivated by a realisation that without a TPP or CPTPP, China would try to fill the vacuum in Pacific trade policy created by American withdrawal.

At first sight, shorn of the USA the CPTPP is a somewhat disparate group. Only two of its eleven signatories—Canada and Japan—are in the G7 and two more—Mexico and Australia—in the G20. It is geographically as well as economically diverse. But together its members still represent 13.4% of world Gross Domestic Product (GDP), making it the third-largest global trade agreement after the EU-Japan and USA-Canada-Mexico Agreements. Nevertheless, reports in early 2018 that the UK was exploring possible membership of the group seemed to stretch credulity, appearing to be more a desperate attempt by Brexiteers to join a non-EU-based trade agreement than a proposal that took serious account of the country’s trade patterns. Hitherto, the one feature all members of the group had in common was a coastline on the Pacific Ocean or a part of it; the UK lacked even that. Its bilateral trade with most CPTPP members is small: its 2018 exports to all eleven members combined were not even three-quarters of those to Germany alone. Geography, plus the relatively small size of most of the member economies, means that it would never be a substitute for the EU market for UK businesses. Pretending otherwise would be a massive act of self-delusion.

Then, in October 2018, Prime Minister Abe said that post-Brexit, Britain would be welcome ‘with open arms’ to join the CPTPP.
the appeal of the proposal to some British politicians with their vision of a ‘global Britain,’ it still seemed fanciful, for the reasons given. But Abe then signalled that Japan’s EPA with the EU could also be aligned with the CPTPP. This is a much less fanciful proposition, for the EU already has, or is negotiating, FTAs with nine of the eleven CPTPP members. Aligning these with CPTPP provisions should be relatively straightforward. If this happened, and if Britain also joined the CPTPP, it would give the UK a degree of continued access to the EU market as well as the CPTPP, Brexit notwithstanding, while placing Japan at the centre of what would be the world’s largest free trade area.39

Given that until quite recently, Japan appeared lukewarm about both the TPP as originally envisaged and a trade agreement with the EU, Abe’s new-found enthusiasm not just for the agreements but for combining them deserves scrutiny. It may simply reflect Japan’s historic preference for multilateral trade liberalisation through the World Trade Organisation (WTO) rather than bilateral deals. With further progress on multilateral trade agreements blocked for some years now, this is the next best thing. It is also, surely, at least in part, a reaction to Japan’s economic rivals, notably Korea, signing bilateral FTAs. Japanese firms faced being placed at a significant disadvantage if Japan had not also entered into bilateral agreements with its main trading partners.

It may also be motivated by a desire to protect the multilateral trading system in the face of a protectionist American president who appeared to have an antipathy to multilateral agreements generally. Working with the EU and other like-minded countries such as Canada to protect the system and preserve the WTO is to be welcomed. (Abe resigned as prime minister on health grounds in August 2020 and with Donald Trump also having left office, it remains to be seen how policy will evolve).

But given the poor state of Japan’s bilateral relations with its two most important neighbours, it is also pertinent to ask whether the proposal is motivated by geostrategic considerations and regional ambitions as much as, or even more than, by a desire for freer trade. The wider trading environment is certainly relevant. For example, while the US-China trade dispute is having a negative impact on overall growth in the region and on global trade generally, it has been a boon to the Vietnamese economy, which saw its exports to the USA jump 33% in the first half of 2019, as electronics suppliers sought to move production away from China to avoid the increase in tariffs. In the same period, Chinese exports to the USA fell by 12%. Asian Development Bank analysis suggests that the more
serious the dispute, the greater will be the boost to Vietnamese growth as it will benefit from further trade diversion. It is not clear that this is what President Trump expected when he launched his trade war with China. As Vietnam is also a member of the CPTPP, Japan and other members are in a more advantageous position to take advantage of its faster growth than non-members.

Vietnam’s gain and the knock-on effects for other CPTPP members are of little consequence, however, compared to the friction between Japan and Korea. Unlike the trade war between the USA and China, this is a conflict between two countries which have formal security agreements with the USA, profess to uphold the same values of democracy and respect for human rights as does the EU, and in whose long-term security and stability the EU also has a major interest. The relationship has long been tetchy but the speed with which it deteriorated during 2019, with the two even regarding one another as adversaries, not competitors, should surely be a cause for worry to the EU.

Korea’s threatened withdrawal from a three-country pact with Japan and the USA on the sharing of military information, primarily related to the shared threat from North Korea, was probably of greater concern to Washington than to European capitals. But the latter cannot afford to ignore the consequences of the rift for world trade, which may well have longer-term implications. That the two countries compete fiercely in trade is not, or should not be, an issue. European countries have long done the same. But Tokyo’s decision in July 2019 to impose export controls on national security grounds on materials critical for Korea’s production of memory chips and other ICT components turned the heat up on long-simmering tensions between the two. Already in 2019, the WTO had ruled once in favour of each side in bilateral disputes they had taken to the organisation. Seoul subsequently announced that it would also refer the new export controls to the WTO. But rather than waiting for a ruling which, given that as a result of the Trump administration’s refusal to appoint new judges to the WTO’s appeals body, could be a long time coming, if indeed it happens at all, Seoul then took a series of other measures, including tax breaks, subsidies and research incentives to encourage the replacement of Japanese products by local manufacture. As one report put it, the outcome of this approach is likely to be ‘higher costs, lower revenues and a reduced return on capital for companies in both economies.’ (Although the EU and 15 other WTO members agreed to set up a temporary disputes resolution procedure in March 2020 to
Korea is not a member of the CPTPP although it has expressed interest in joining, as has Taiwan, so from Japan’s point of view a deal between the CPTPP and EU would not only place Japan at the centre of a major new free trade area, with all the benefits this would bring to Japanese business, but if Korea continues to be outside the agreement, it would also increase Japan’s competitive advantage and global influence at Korea’s expense. Admittedly, both Korea and Japan are engaged in tripartite discussions with China on an FTA, but as of December 2019, sixteen rounds of discussions had been held since negotiations were first launched in 2012, with little obvious sign of progress. On a more promising note, both Korea and Japan—but not Taiwan—are signatories of the Regional Comprehensive Economic Partnership Agreement (RCEP), initiated by Indonesia, which also includes other ASEAN countries and China.

While it remains to be seen whether the EU will be enthusiastic about the proposal, there is ample evidence of its readiness to work more closely with Japan generally. The two collaborated effectively at the G20 summit meeting in Osaka in June 2019 in overcoming US opposition to strong language in the communiqué on the need for action over climate change and the environment (a separate dissenting paragraph on the US’ position only served to highlight its isolation). Three months later, the two signed a ‘connectivity partnership’ in what was reported to be a counter to China’s Belt and Road Initiative. But given its own important trade links with both China and Korea, and for that matter Taiwan too, none of whom are members of the CPTPP, the EU should consider the implications of the proposal carefully.

An EU-CPTPP agreement would represent around 40% of global trade, putting all the members in a stronger position to resist more protectionist moves by the USA. Indeed, such an agreement could herald a return to multilateralism and perhaps the start of a new world trading order. It would show that neither the USA nor China is able to block moves to future trade liberalisation, nor use their economic weight to sway the agreement to their own advantage. But should the proposal gain traction, it would surely be in the EU’s interests to address both geostrategic and trade aspects in its approach. On the latter, the EU increasingly seeks Partnership and Cooperation Agreements which extend beyond trade alone, to embrace common values, notably democracy and respect for human rights. At least seven of the eleven CPTPP members
are full democracies which have seen regular changes of government through the ballot box, and a further two hold regular elections. On the other hand, the EU’s willingness to sign an FTA with Vietnam, despite the absence of democracy and well-founded concerns about the lack of human rights there, suggests that the EU attaches higher importance to potential economic gains than to values. On this basis, the only CPTPP member about whom the EU may have reservations is likely to be Brunei, given its adoption of sharia law. Even with some of the original provisions of the TPP suspended after the USA withdrew, the CPTPP remains a remarkably comprehensive agreement for such a diverse group of countries. But some of these suspended provisions, notably on the degree of copyright protection for pharmaceuticals, would be of benefit to European companies and unless they are re-instated, the CPTPP will fall short of the EU’s agreement with Japan in its coverage.

The geostrategic aspects are of greater potential significance for the EU. The economic benefits to it from alignment with the CPTPP would be greater if it were expanded to include Korea and Taiwan. To exclude two such important trading economies makes no sense. Although China is the principal export market for both, the same is true of Japan. Like Japan, both have also suffered from China’s crude use of its economic muscle for political ends, principally through tourist boycotts but also in the case of Korea, a Chinese consumer boycott of the major Korean retailer Lotte, which eventually pulled out of the Chinese market altogether in consequence. Again, like Japan, they share the EU’s professed values, and the EU has a vested interest in their continuing stability and prosperity. An EU-CPTPP agreement that included them would be predominantly a grouping of countries with shared political and social values, not just an interest in trade. It would deliver a strong political message to both a protectionist USA and a China with hegemonic ambitions. And common membership may help Korea and Japan find a way to work through their bilateral trade frictions with less risk of adverse consequences.

The government in Taipei is acutely sensitive to the risks posed by excessive reliance on the Chinese economy, which it has been seeking to reduce through its *New Southbound Policy*, aimed at reducing dependence on the Chinese market, and which has been given added impetus since late 2018 by the trade dispute between the USA and China. Joining the TPP in its original form was a priority for Taiwan, and even without US membership being in the group would bring important trade benefits. From the EU’s perspective, it would also deal with the ‘China problem.’
Commission officials have always been unwilling to negotiate a bilateral FTA with Taiwan prior to doing so with China. With the prospects of an EU-China FTA as remote as ever, Taiwanese membership of the CPTPP would sidestep the matter.

As for the UK, to date, it has been spared the trade and tourist boycotts that China has applied against other countries. Its membership of the Single Market has undoubtedly helped as it surely makes China very wary of such behaviour unless it can be shown to be a response specific trade measures, such as the imposition of anti-dumping duties. Would China be similarly inhibited once the UK is no longer in the Single Market? Its track record does not inspire confidence.

**Conclusion**

With Brexit confirmed, the UK’s overwhelming trade priority must be a comprehensive new agreement with its former partners in the EU. Quite apart from the wider importance for current trade, this is essential to protect as much as possible of existing supply chains, which is the best way of trying to ensure that foreign-invested facilities—especially those from Japan—remain in the country and do not relocate elsewhere in Europe. In view of the importance the Japanese Government attached to supporting these investments, this, in turn, would help the UK in its relations with Japan.

Attractive though membership of the CPTPP may be to some British politicians, however, this only makes sense as a trade priority if the EU also joins, or after the UK has first negotiated a new agreement with it. While some politicians may harbour nostalgic visions of re-kindling old Commonwealth or imperial trade ties, the reality is that the UK’s trade with CPTPP members is modest indeed when compared to that with the rest of the EU. Even its exports to Japan, by some way its largest trading partner within the CPTPP, are less than one-third of those to Ireland, while its exports to Sweden are greater than those to Canada, its second-largest market in the CPTPP, geographically the closest, and a country with almost four times the population of Sweden. For all the Commonwealth nostalgia, the UK even exports more to Israel, not an EU member, than it does to New Zealand.46

But the UK will find that its negotiating leverage in new bilateral agreements will be a fraction of that it has enjoyed from being within the EU. Paradoxically, the one country in the region which would unreservedly
welcome an early bilateral agreement with the UK is also the one with which the UK would be most reluctant to enter negotiations—Taiwan. While a deal between the two could probably be agreed quickly and be of mutual benefit, the UK is unlikely to wish to risk offending perceived Chinese sensibilities by doing so (although such perceptions were once also a major obstacle to countries removing their visa restrictions on Taiwanese passport holders before being eventually found to have no basis in fact).

So, it will be very much to the UK’s benefit to seek to join new multilateral agreements, the CPTPP included, where it can, rather than trying to negotiate a series of bilateral agreements. But its influence in this will be limited, as it is likely to find the world outside the EU a tough environment. Indeed, it may find it has little choice but to pursue the bilateral route. Its politicians may dream of doing more but outside the EU, and as negotiations with Japan have already shown, they are likely to find the country’s influence and leverage greatly diminished.

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